84th Congress, 2d Session - - - - - House Document No. 477, Vol. X

DEPARTMENT OF STATE · UNITED STATES OF AMERICA

Foreign Relations of the United States, 1955–1957

Volume X

Foreign Aid and Economic Defense Policy

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H 920-16

United States Government Printing Office
Washington
1989

DEPARTMENT OF STATE PUBLICATION 9719

OFFICE OF THE HISTORIAN

BUREAU OF PUBLIC AFFAIRS

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

Preface

The publication *Foreign Relations of the United States* constitutes the official record of the foreign policy of the United States. The volumes in the series include, subject to necessary security considerations, all documents needed to give a comprehensive record of the major foreign policy decisions of the United States together with appropriate materials concerning the facts which contributed to the formulation of policies. Documents in the files of the Department of State are supplemented by papers from other government agencies involved in the formulation of foreign policy.

The basic documentary diplomatic record printed in the volumes of the series *Foreign Relations of the United States* is edited by the Office of the Historian, Bureau of Public Affairs, Department of State. The editing is guided by the principles of historical objectivity and in accordance with the following official guidance first promulgated by Secretary of State Frank B. Kellogg on March 26, 1925.

There may be no alteration of the text, no deletions without indicating where in the text the deletion is made, and no omission of facts which were of major importance in reaching a decision. Nothing may be omitted for the purpose of concealing or glossing over what might be regarded by some as a defect of policy. However, certain omissions of documents are permissible for the following reasons:

> a. To avoid publication of matters which would tend to impede current diplomatic negotiations or other business.
>
> b. To condense the record and avoid repetition of needless details.
>
> c. To preserve the confidence reposed in the Department by individuals and by foreign governments.
>
> d. To avoid giving needless offense to other nationalities of individuals.
>
> e. To eliminate personal opinions presented in despatches and not acted upon by the Department. To this consideration there is one qualification—in connection with major decisions it is desirable, where possible, to show the alternative presented to the Department before the decision was made.

Documents selected for publication in the *Foreign Relations* volumes are referred to the Department of State Classification/Declassification Center for declassification clearance. The Center reviews the documents, makes declassification decisions, and obtains the clearance of geographic and functional bureaus of the Department of State, as well as of other appropriate agencies of the government.

The Center, in coordination with geographic bureaus of the Department of State, conducts communications with foreign governments regarding documents or information of those governments proposed for inclusion in *Foreign Relations* volumes.

Charles S. Sampson supervised the planning of this volume. John P. Glennon directed its final preparation. William F. Sanford prepared the compilation on foreign aid. Robert J. McMahon prepared the compilation on economic defense. Sherrill B. Wells prepared the compilation on stockpiling. Althea W. Robinson performed technical editing under the supervision of Rita M. Baker. Barbara A. Bacon of the Publishing Services Division (Paul M. Washington, Chief) oversaw production of the volume. Twin Oaks Indexing Collective prepared the index.

William Z. Slany
The Historian
Bureau of Public Affairs

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Department of State

1. *Indexed Central Files.* Papers in the indexed central files of the Department for the years 1955–1957 are indicated by a decimal file number in the first footnote.

2. *Lot Files.* Documents from the central files have been supplemented by lot files of the Department, which are decentralized files created by operating areas. A list of the lot files used in or consulted for this volume follows:

A/MS Files: Lot 54 D 291

Consolidated administrative files of the Department of State for 1949–1960, as maintained by the Management Staff of the Bureau of Administration.

CA Files: Lot 60 D 171

Economic subject files maintained by the Office of Chinese Affairs in the Bureau of Far Eastern Affairs for 1954–1956.

Conference Files: Lot 62 D 181

See entry under Washington National Records Center.

Current Economic Developments: Lot 70 D 467

See entry under Washington National Records Center.

E Files: Lot 60 D 68

Files relating to United Nations economic issues for 1950–1957, as maintained by the Bureau of Economic Affairs.

E Files: Lot 60 D 136

Subject and country files of the Export-Import Bank, as maintained by the Economic Development Division of the Bureau of Economic Affairs.

E–CFEP Files: Lot 61 D 282A

See entry under Washington National Records Center.

Economic Defense Files: Lot 59 D 439

File of documents relating to China trade controls, as maintained by the Economic Defense Division of the Office of International Trade and Resources, Bureau of Economic Affairs.

Economic Defense Files: Lot 59 D 665

Minutes and documents relating to the interagency Economic Defense Advisory Committee, the Coordinating Committee on export controls, the COCOM Consultative Group, and various other organizations concerned with export controls for 1950–1959, as maintained by the EDAC Executive Secretariat, Mutual Defense Assistance Control Staff, Bureau of Economic Affairs. These files are part of Federal Records Center Accession 65 A 987.

Economic Defense Files: Lot 64 D 234

Subject files pertaining to economic defense matters for 1957–1963. These files were retired by the Mutual Defense Control Staff of the Bureau of Economic Affairs and are part of Federal Records Accession 71 A 6682.

IO Files

Master files of the Reference and Documents Section of the Bureau of International Organization Affairs of the Department of State, comprising the official U.N. documentation and classified Department of State records on United States policy in the U.N. Security Council, Trusteeship Council, Economic and Social Council, and various special and ad hoc committees for the period from 1946 to date.

IO Files: Lot 60 D 113

Consolidated files of the Assistant Secretary of State for International Organization Affairs for 1955–1957. (Includes materials from old Lot 58 D 17.)

IO Files: Lot 71 D 440

Master files of classified records and correspondence of United States Delegations to sessions of the U.N. General Assembly for 1945–1965, maintained by the Bureau of International Organization Affairs.

NAC Files: Lot 60 D 137

See entry under Washington National Records Center.

OCB Files: Lot 61 D 385

Master set of the administrative and country files of the Operations Coordinating Board for 1953–1960, as maintained by the Operations Staff of the Department of State.

OCB Files: Lot 62 D 430

Master files of the Operations Coordinating Board for 1953–1960, as maintained by the Executive Secretariat of the Department of State.

OF Files: Lot 59 D 578

See entry under Washington National Records Center.

OFD Files: Lot 59 D 620

See entry under Washington National Records Center.

P/PG Files: Lot 60 D 661

Subject files containing OCB and NSC documents retired by the Policy Plans and Guidance Staff in the Bureau of Public Affairs.

PPS Files: Lot 66 D 487

Subject files, country files, chronological files, documents, drafts, and related correspondence of the Policy Planning Staff for 1956.

PPS Files: Lot 67 D 548

Subject files, country files, chronological files, documents, drafts, and related correspondence of the Policy Planning Staff for 1957–1961.

Presidential Correspondence: Lot 66 D 204

Exchanges of correspondence between the President and the heads of foreign governments for 1953–1964, as maintained by the Executive Secretariat of the Department of State.

S/P Files: Lot 66 D 487

See entry under PPS Files.

S/P–NSC Files: Lot 61 D 167

Serial file of memoranda relating to National Security Council questions for 1950–1961, as maintained by the Policy Planning Staff.

S/P–NSC Files: Lot 62 D 1

Serial and subject master file of National Security Council documents and correspondence for 1948–1961, as maintained by the Policy Planning Staff.

S/S–NSC Files: Lot 63 D 351

Serial master file of National Security Council documents and correspondence and related Department of State memoranda for 1947–1961, as maintained by the Executive Secretariat of the Department of State.

S/S–NSC (Miscellaneous) Files: Lot 66 D 95

Administrative and miscellaneous National Security Council documentation, including NSC Records of Action, as maintained by the Executive Secretariat of the Department of State for 1947–1963.

S/S–OCB Files: Lots 61 D 385; 62 D 430

See entries under OCB Files above.

Secretary's Memoranda of Conversation: Lot 64 D 199

Chronological collections of the Secretary of State's memoranda of conversation and the Under Secretary of State's memoranda of conversation for 1953–1960, as maintained by the Executive Secretariat of the Department of State.

Secretary's Staff Meetings: Lot 63 D 75

Chronological collections of the minutes of the Secretary of State's staff meetings during 1952–1960, as maintained by the Executive Secretariat of the Department of State.

State–JCS Meetings: Lot 61 D 417

Top secret records of meetings between representatives of the Department of State and the Joint Chiefs of Staff for the years 1951–1959 and selected problem files on the Middle East for 1954–1956, as maintained by the Executive Secretariat of the Department of State.

UNP Files: Lot 59 D 237

Subject files of the Office of United Nations Political and Security Affairs for 1946–1957.

UNP Files: Lot 62 D 170

See entry under Washington National Records Center.

USIA/I Files: Lot 60 D 322

Microfilm collection of chronological files for the Office of the Director, 1956–1961, and congressional chronological files, 1957–1959, as maintained by the USIA Executive Secretariat.

United States Mission to the United Nations, New York

USUN Files

Files of the United States Mission to the United Nations, 1950 to date.

Department of Agriculture

See entry under National Archives and Records Adminstration.

Department of Commerce

See entries under Washington National Records Center.

Department of Defense

See entry for JCS Records under National Archives and Records Administration.

Department of the Treasury

See entry for NAC documents under National Archives and Records Administration.

International Cooperation Administration

See entry under Washington National Records Center.

Dwight D. Eisenhower Library, Abilene, Kansas

Areeda Papers

Papers of Phillip E. Areeda, 1952–1962. Areeda was a first lieutenant, USAF, in the Office of Air Force General Counsel, 1955–1956; member of the White House Staff for Economic Affairs and Higher Criticism, 1956–1958; and Assistant Special Counsel to the President, 1958–1961.

Cabinet Secretariat Records

Records of the Cabinet Secretariat, 1953–1960.

CFEP Chairman Records

Records of the Office of the Chairman, United States Council on Foreign Economic Policy, 1954–1961, including records of Joseph M. Dodge and Clarence B. Randall.

CFEP Records

Records of the United States Council on Foreign Economic Policy, 1955–1961.

Dulles Papers

Papers of John Foster Dulles, 1953–1959.

Fairless Committee Records, 1956–1957

Papers of the President's Citizen Advisers on the Mutual Security Program, established by President Eisenhower on September 22, 1956, to examine the foreign assistance activities of the United States.

Hagerty Papers

Papers of James C. Hagerty, Press Secretary to the President, 1953–1961.

Harlow Records

Records of Bryce N. Harlow, 1953–1961. Harlow was Special Assistant to the President, 1953; Administrative Assistant to the President, 1953–1958; and Deputy Assistant to the President for Congressional Affairs, 1958–1961.

Herter Papers

Papers of Christian A. Herter, 1957–1961. Herter was Under Secretary of State, 1957–1959, and Secretary of State, 1959–1961.

Project Clean Up

Project 'Clean Up' collection. Records of Gordon Gray, Robert Cutler, Henry R. McPhee, and Andrew J. Goodpaster, 1953–1961.

Special Assistant for National Security Affairs Records

Records of the Office of the Special Assistant, 1952–1961, including records of Robert Cutler, Dillon Anderson, and Gordon Gray.

Whitman File

Papers of Dwight D. Eisenhower as President of the United States, 1953–1961, as maintained by his personal secretary, Ann C. Whitman. The Whitman File includes the following elements: Name Series, Dulles–Herter Series, Eisenhower Diaries, Ann Whitman (ACW) Diaries, National Security Council Records, Miscellaneous Records, Cabinet Papers, Legislative Meetings, International Meetings, Administration Series, and International File.

National Archives and Records Administration

International Trade Files

See entry under Washington National Records Center.

JCS Records

National Archives Record Group 218, Records of the United States Joint Chiefs of Staff and the Chairman of the Joint Chiefs of Staff.

NAC Documents

National Archives Record Group 56, General Records of the Department of the Treasury. Documents of the National Advisory Council on International Monetary and Financial Problems from 1945.

Office of the Secretary of Agriculture Records

National Archives Record Group 16, Records of the Office of the Secretary of Agriculture. Subject files of the Secretary of Agriculture for 1879–1972, containing reports, letters, memoranda, and other records arranged under topical headings.

Washington National Records Center

Bureau of Foreign Commerce Files, FRC 59 A 1022 and 61 A 1018

Files of the Bureau of Foreign Commerce, Department of Commerce, arranged in a decimal system under six major headings, including: 'General' (000), 'Appropriations and Accounting' (100), 'Personnel' (200), 'Business Methods and Procedures' (300), 'Promotion of Trade and Production' (400), 'Trade Control' (500), and 'Domestic Supply' (600).

Conference Files, FRC 59 83 0066

Lot 62 D 181: Collection of documentation on official visits by heads of government and foreign ministers to the United States and on major international conferences attended by the Secretary of State for 1956–1958, as maintained by the Executive Secretariat.

Current Economic Developments, FRC 72 A 6248

Lot 70 D 467: Master set of the Department of State classified internal publication *Current Economic Developments* for 1945–1969, as maintained by the Bureau of Economic Affairs.

CFEP Files, FRC 62 A 624

Lot 61 D 282A: Agenda, minutes, and documents of the Council on Foreign Economic Policy for 1955–1960, as maintained by the Bureau of Economic Affairs.

ICA Director's Files, FRC 61 A 32

Subject files of the Director of the International Cooperation Administration, containing correspondence, memoranda, reports, messages, and other material accumulated from 1955 to 1958.

NAC Files, FRC 71 A 6682

Lot 60 D 137: Master files of the documents of the National Advisory Council on International Monetary and Financial Problems for 1945–1958, as maintained by the Bureau of Economic Affairs.

OF Files, FRC 60 A 293

Lot 59 D 578: Financial files arranged alphabetically by Foreign Service post for fiscal year 1957.

OFD Files, FRC 65 A 987

Lot 59 D 620: Subject files on international economic issues for 1954–1959, as maintained by the Office of International Financial and Development Affairs in the Bureau of Economic Affairs.

Office of the Secretary of Commerce Files, FRC 69 A 6837

Records maintained by the Office of the Secretary of Commerce relating to general economic subjects, including such topics as the Council on Foreign Economic Policy, Economic Defense Policy, and Trade and Export Controls.

UNP Files, FRC 71 A 5255

Lot 62 D 170: United Nations subject files, 1947–1960, as maintained by the Office of United Nations Political Affairs.

USIA/IPS Files, FRC 63 A 171

Files of the International Press Service for the 1950s.

List of Abbreviations and Symbols

Editor's Note: This list does not include standard abbreviations in common usage; unusual abbreviations of rare occurrence which are clarified at appropriate points; and those abbreviations and contractions which, although uncommon, are understandable from the context.

A, Office of the Assistant Secretary of State for Administration, Department of State
A/MS, Management Staff, Bureau of Administration, Department of State
ACC, Administrative Committee on Coordination
ACEP, Advisory Committee on Export Policy
AEC, Atomic Energy Commission
ANZUS, Australia, New Zealand, United States
ARA, Bureau of Inter-American Affairs, Department of State
Benelux, Belgium, Netherlands, Luxembourg
BNA, Office of British Commonwealth and Northern European Affairs, Bureau of European Affairs, Department of State
BOT, Board of Trade (United Kingdom)
C, Office of the Counselor, Department of State
CA, circular airgram; Office of Chinese Affairs, Bureau of Far Eastern Affairs, Department of State
CAB, Civil Aeronautics Board
CCC, Commodity Credit Corporation, Department of Agriculture
CEA, Council of Economic Advisers
CFEP, Council on Foreign Economic Policy
CG, Consultative Group, based in Paris, consisting of nations working to control the export of strategic goods to Communist countries
CHINCOM, China Committee of the Paris Consultative Group (CG)
ChiNat, Chinese Nationalist, i.e., Republic of China
CIA, Central Intelligence Agency
CICT, Commission on International Commodity Trade
cirtel, circular telegram
COCOM, Coordinating Committee of the Paris Consultative Group (CG)
CP, Contracting Party (Parties)
CSC, Civil Service Commission
CSD, Commodities Division, Office of International Resources (1957), Bureau of Economic Affairs, Department of State
D, member of the Democratic Party in the United States
del, delegate; delegation

Delga, series indicator for telegrams from the United States Delegation at the United Nations General Assembly; also used to refer to the United States Delegation at the United Nations General Assembly
Dento, series indicator for telegrams sent from the Denver White House
Deptel, Department of State telegram
DFI, Division of Functional Intelligence, Office of the Special Assistant for Intelligence, Department of State
DLF, Development Loan Fund
DMB, Defense Mobilization Board
DOD, Department of Defense
DPA, Defense Production Act
Dulte, series indicator for telegrams from Secretary Dulles when away from Washington
E, Bureau of Economic Affairs, Department of State
ECAFE, Economic Commission for Asia and the Far East, United Nations
ECD, Economic Defense Division, Office of International Trade and Resources, Bureau of Economic Affairs, Department of State
ECE, Economic Commission for Europe, United Nations
ECLA, Economic Commission for Latin America, United Nations
ECOSOC, Economic and Social Council, United Nations
ECSC, European Coal and Steel Community
ED, Investment and Development Staff, Office of Financial and Development Policy, Bureau of Economic Affairs, Department of State
EE, Office of Eastern European Affairs, Bureau of European Affairs, Department of State
EEC, European Economic Community
Embtel, Embassy telegram
EPU, European Payments Union
ETAP, Expanded Technical Assistance Program
EUR, Bureau of European Affairs, Department of State
EURATOM, European Atomic Energy Community
Ex-Im Bank, Export-Import Bank
FAO, Food and Agriculture Organization, United Nations
FBI, Federal Bureau of Investigaton
FCDA, Federal Civil Defense Administration
FCN, Friendship, Commerce and Navigation (treaty)
FE, Bureau of Far Eastern Affairs, Department of State
FOA, Foreign Operations Administration (after June 30, 1955, International Cooperaton Administraton (ICA))
FonOff, Foreign Office
FY, fiscal year
FYI, for your information
G, Office of the Deputy Under Secretary of State
GA, General Assembly of the United Nations
GADel, series indicator for telegrams to the United States Delegation at the United Nations General Assembly; also used to refer to the United States Delegation at the United Nations General Assembly
GARIOA, Government and Relief in Occupied Areas
GATT, General Agreement on Tariffs and Trade
GRC, Government of the Republic of China
H, Office of the Assistant Secretary of State for Congressional Relations
H.R.1, Trade Agreement Extension Act of 1955 (after June 21, 1955, it became Public Law 86)
IA–ECOSOC, Inter-American Economic and Social Council
IAC, Intelligence Advisory Committee
IAEA, International Atomic Energy Agency
IATA, International Air Transport Association
IBRD, International Bank for Reconstruction and Development
ICA, International Cooperation Administration
ICAO, International Civil Aviation Organization
ICASD, Interagency Committee on Agriculural Surplus Disposal
ICC, International Control Commission; Interstate Commerce Commission
ICCICA, Interim Coodinating Committee for Interational Commodity Agreements

ICICI, Industrial Credit and Investment Corporation of India, Ltd.
ICJ, International Court of Justice
IDAB, International Development Advisory Board
IFC, International Finance Corporation
IGY, International Geophysical Year
ILA, International Longshoremen's Association
ILO, International Labor Organization, United Nations
IMF, International Monetary Fund
IO, Bureau of International Organization Affairs, Department of State
IPAA, Independent Petroleum Association of America
IPC, Iran Petroleum Company
IRD, International Resources Division, Office of International Trade and Resources, Bureau of Economic Affairs, Department of State
ISA, Office of the Assistant Secretary of Defense for International Security Affairs
ITO, International Trade Organization
ITR, Office of International Trade and Resources, Bureau of Economic Affairs, Department of State,
JCS, Joint Chiefs of Staff
LA, Latin America
MAAG, Military Assistance Advisory Group
MDAP, Mutual Defense Assistance Program
MEEC, Middle East Emergency Committee
MSP, Mutual Security Program
mytel, my telegram
NA, Office of Northeast Asian Affairs, Bureau of Far Eastern Affairs, Department of State
NAC, National Advisory Council on International Monetary and Financial Problems; North Atlantic Council
NATO, North Atlantic Treaty Organization
NE, Near East; Office of Near Eastern Affairs, Bureau of Near Eastern, South Asian, and African Affairs, Department of State
NEA, Bureau of Near Eastern, South Asian, and African Affairs, Department of State
NGO, nongovernmental organization
niact, night action, communication indicator requiring attention by the recipient at any hour of the day or night
NIE, National Intelligence Estimate
NNSC, Neutral Nations Supervisory Commission
NSC, National Security Council
OAS, Organization of American States
OCB, Operations Coordinating Board
ODM, Office of Defense Mobilization
OEEC, Organization for European Economic Cooperation
OELAC, Oil Emergency (London) Advisory Committee
OF, Office of Finance, Bureau of Administration, Department of State
OFD, Office of Financial and Development Policy, Bureau of Economic Affairs, Department of State
OIR, Office of Intelligence Research, Department of State
OR, Office of International Resources, Bureau of Economic Affairs, Department of State
OIT, Office of International Trade, Department of Commerce
OTC, Organization for Trade Cooperation
PAB, Public Advisory Board for Mutual Security
PAO, public affairs officer
PAU, Pan American Union
PC, participating countries
PL, Public Law
POL, petrolem, oil, lubricants
R, Office of the Special Assistant for Intelligence, Department of State; member of the Republican Party in the United States
RA, Office of Eurpean Regional Affairs, Bureau of European Affairs, Department of State
reftel, reference telegram
Res., Resolution of the United Nations
ROC, Republic of China
ROK, Republic of Korea
S/P, Policy Planning Staff, Department of State
S/S, Executive Secretariat, Department of State
SC, Security Council of the United Nations

SEATO, South East Asia Treaty Organization

Sec, Secretary

Secto, series indicator for telegrams from the Secretary of State (or his delegation) at international conferences to the Department of State

Sen., Senator

SETAF, Southern European Task Force

SHAPE, Supreme Headquarters, Allied Powers, Europe

SONJ, Standard Oil Company of New Jersey

S. Res., Senate Resolution

SUNFED, Special United Nations Fund for Economic Development

SYG, Secretary-General

TAB, Technical Assistance Board, United Nations

TAC, Technical Assistance Committee, United Nations; Interdepartmental Committee on Trade Agreements (Trade Agreements Committee); Transit Authorization Certificate

TAD, Trade Agreements and Treaties Division, Office of International Trade and Resources, Bureau of Economic Affairs, Department of State

Tedul, series indicator for telegrams from the Department of State to Secretary of State Dulles when away from Washington

TG, Thai Government

TO, Table of Organization

Toden, series indicator for telegrams sent to the Denver White House

Topol, series indicator for telegrams from the Department of State to the United States Permanent Representative to the North Atlantic Council

Tosec, series indicator for telegrams sent from the Department of State to the Secretary of State (or his delegation) at international conferences

U, Office of the Under Secretary of State

UK, United Kingdom

UKDel, United Kingdom Delegation

UN, United Nations

UNC, United Nations Command

UNEF, United Nations Emergency Force

UNESCO, United Nations Educational, Scientific and Cultural Organization

UNGA, United Nations General Assembly

UNICEF, United Nations International Children's Emergency Fund

UNKRA, United Nations Korean Reconstruction Agency

UNP, Office of United Nations Political and Security Affairs, Bureau of International Organization Affairs, Department of State

UNRRA, United Nations Relief and Reconstruction Agency

UNRWA, United Nations Relief and Works Agency for Palestine Refugees in the Near East

UNSC, United Nations Security Council

UNTA, United Nations Technical Assistance Program

urtel, your telegram

USGADel, United States Delegation at the United Nations General Assembly

USA, United States Army

USAF, United States Air Force

USIA, United States Information Agency

USIS, United States Information Service

USOM, United States Operations Mission

USN, United States Navy

USRO, United States Mission to the North Atlantic Treaty Organization and European Regional Organizations; United States Regional Organizations

USUN, United States Mission at the United Nations

WE, Office of Western European Affairs, Bureau of European Affairs, Department of State; Western Europe

WEU, Western European Union

WHO, World Health Organization, United Nations

WP, Working Party (member of intersessional committee set up under GATT)

List of Persons

Editor's Note: The individuals identified below were principal participants in the events covered in this volume. Other officials and individuals not included in the list are identified in footnotes to the text at appropriate places. All titles and positions are American unless otherwise indicated. Where no dates are given, the individual held the position throughout the period covered by this volume.

Adams, Sherman, Assistant to the President

Adams, Ware, Director, Office of United Nations Political and Security Affairs, Bureau of International Organization Affairs, Department of State, from September 19, 1956

Aldrich, Winthrop W., Ambassador to the United Kingdom until February 1, 1957

Allen, George V., Assistant Secretary of State for Near Eastern, South Asian, and African Affairs, January 24, 1955–July 26, 1956; Ambassador to Greece, October 12, 1956–November 13, 1957; appointed Director, United States Information Agency, November 15, 1957

Alphand, Hervé, Representative of France at the United Nations, September 1955–August 1956; thereafter Ambassador to the United States

Amory, Robert, Jr., Deputy Director for Intelligence, Central Intelligence Agency

Anderson, Dillon, Special Assistant to the President for National Security Affairs, April 1955–September 1956; Consultant to the President from June 1957

Anderson, Robert B., Deputy Secretary of Defense until August 4, 1955; Secretary of the Treasury from July 29, 1957

Armstrong, W. Park, Jr., Special Assistant for Intelligence, Department of State, until May 5, 1957; Minister-Counselor of the Embassy in Spain from September 22, 1957

Armstrong, Willis C., Deputy Director, Office of International Trade and Resources, Bureau of Economic Affairs, Department of State, January 15, 1955–June 1, 1957; Director, Office of International Resources, Bureau of Economic Affairs, June 1–August 6, 1957; thereafter Acting Deputy Assistant Secretary of State for Economic Affairs

Asbjornson, Mildred, Secretary to Secretary of State Dulles

Barbour, Walworth, Deputy Assistant Secretary of State for European Affairs until October 23, 1955; Deputy Chief of Mission of the Embassy in the United Kingdom from November 20, 1955

Barnes, Robert G., Attaché at the Embassy in France until June 12, 1955; Deputy Director, Executive Secretariat, Department of State, June 12–August 1, 1955; Director, August 1, 1955–March 11, 1956; thereafter Special Assistant to the Under Secretary of State for Mutual Security Affairs

Barnes, Stanley N., Assistant Attorney General, Head of the Anti-Trust Division, Department of Justice, 1955–1956

Barnett, Robert W., Officer in Charge of European Regional Affairs, Bureau of European Affairs, Department of State, until November 25, 1955; Officer in Charge of Economic Organization Affairs in that Office, December 19, 1955–May 6, 1956; thereafter Economic Counselor at the Embassy in the Netherlands

Barringer, J. Paul, Director, Office of Transport and Communications, Bureau of Economic Affairs, Department of State, until July 19, 1956; thereafter Deputy Chief of Mission at the Embassy in Haiti

Becker, Loftus E., Legal Adviser of the Department of State from June 13, 1957

Beckner, Earl R., Assistant Chief, Petroleum Staff, Bureau Economic Affairs, Department of State, until January 29, 1956; Associate Chief of the Fuels Division, January 29–May 10, 1956; thereafter Chief of the Division

Beeley, Harold, Counselor of the British Embassy in the United States, 1955; Ambassador to Saudi Arabia, May–July 1955; Assistant Under Secretary of the Foreign Office from 1956

Benson, Ezra Taft, Secretary of Agriculture

Bernau, Phyllis, Personal Assistant to Secretary of State Dulles

Bernbaum, Maurice M., Director, Office of South American Affairs, Bureau of Inter-American Affairs, September 2, 1955–January 28, 1957

Black, Eugene, President of the International Bank for Reconstruction and Development

Bishop, Max W., Operations Coordinator in the Office of the Under Secretary of State until December 23, 1955; Ambassador to Thailand from January 9, 1956

Bowie, Robert R., Director, Policy Planning Staff, Department of State, until August 1955; Assistant Secretary of State for Policy Planning, August 10, 1955–October 18, 1957; Department of State Representative on the National Security Council Planning Board, August 28, 1955–October 18, 1957

Brownell, Herbert, Jr., Attorney General

Brundage, Percival F., Deputy Director, Bureau of the Budget, until 1956; Director from April 2, 1956; member, Advisory Board on Economic Growth and Stability, Council of Economic Advisers, from 1956

Buchanan, Wiley T., Jr., Chief of Protocol, Department of State

Burdett, William C., Jr., Deputy Director, Office of Near Eastern Affairs, Bureau of Near Eastern, South Asian, and African Affairs, Department of State, October 9, 1955–October 7, 1956; Special Assistant to the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs, October 7, 1956–August 11, 1957; Acting Deputy Director, Office of Near Eastern Affairs, August 11–November 3, 1957; thereafter First Secretary of the Embassy in the United Kingdom

Burgess, W. Randolph, Under Secretary of the Treasury until 1957; Permanent Representative to the North Atlantic Treaty Organization from 1957

Burke, Admiral Arleigh A., USN, Commander, Destroyer Force, Atlantic Fleet, January–August 1955; thereafter Chief of Naval Operations

Butz, Earl L., Assistant Secretary of Agriculture

Caccia, Sir Harold, British Deputy Under Secretary of the Foreign Office until November 1956; thereafter Ambassador to the United States

Corbett, Jack C., Director, Office of Financial and Development Policy, Bureau of Economic Affairs, Department of State

Cosgrave, Liam, Minister for External Affairs of Ireland

Coulson, John E., Assistant Under Secretary of State, British Foreign Office, until October 1955; Minister of the British Embassy in the United States from October 27, 1955

Couve de Murville, Maurice, French Ambassador to the United States until September 1956

Cullen, Paul H., Secretary, Council on Foreign Economic Policy

Cutler, Robert, Administrative and Special Assistant for National Security Affairs to the President until April 1955 and from January 1957

Dale, William N., Officer in Charge of United Kingdom and Ireland Affairs, Office of British Commonwealth and Northern European Affairs, Bureau of European Affairs, Department of State

De Margerie, *see* Jacquin de Margerie

DeLany, Vice Admiral Walter S., Deputy Director for Mutual Defense Assistance Control, International Cooperation Administration

Dillon, C. Douglas, Ambassador to France until January 28, 1957; Deputy Under Secretary of State for Economic Affairs from March 15, 1957

Dirksen, Everett M., Republican Senator from Illinois; Senate Minority Whip from 1957; member, Senate Appropriations Committee

Dodge, Joseph M., Special Assistant to the President and Chairman, Council on Foreign Economic Policy, until July 10, 1956

Doherty, Edward W., Chief, Division of Functional Intelligence, Office of Intelligence Research, Department of State

Dulles, Allen W., Director of Central Intelligence

Dulles, John Foster, Secretary of State

Dunham, William B., Office of Western European Affairs, Bureau of European Affairs, Department of State

Eden, Sir Anthony, British Secretary of State for Foreign Affairs and Deputy Prime Minister until April 6, 1955; Prime Minister and First Lord of the Treasury, April 6, 1955–January 10, 1957

Eisenhower, Dwight D., President of the United States

Elbrick, C. Burke, Deputy Assistant Secretary of State for European Affairs until February 11, 1957; thereafter Assistant Secretary of State for European Affairs

FitzGerald, Dennis A., Deputy Director of Operations, International Cooperation Administration

Flemming, Arthur S., Director, Office of Defense Mobilization, until February 1957

Garnett, Gwynn, Administrator of the Foreign Agricultural Service, Department of Agriculture

George, Walter F., Democratic Senator from Georgia; Chairman, Senate Foreign Relations Committee, until January 3, 1957; President Pro Tempore, January 3, 1955–January 3, 1957; Special Ambassador to the North Atlantic Treaty Organization until August 4, 1957

Gleason, S. Everett, Deputy Executive Secretary, National Security Council

Goodkind, Louis W., Chief, Economic Defense Division, Department of State

Gray, Gordon, Assistant Secretary of Defense for International Security Affairs, July 14, 1955–February 27, 1957; Director, Office of Defense Mobilization, from March 14, 1957

Green, Theodore F., Democratic Senator from Rhode Island; Chairman, Senate Foreign Relations Committee, from January 3, 1957

Gromyko, Andrei A., Soviet First Deputy Minister for Foreign Affairs until February 14, 1957; thereafter Minister of Foreign Affairs; Ambassador to the United

Kingdom until February 14, 1957; Representative on the United Nations Subcommittee on Disarmament, 1956; Representative on the Disarmament Commission, July 3–fall 1956; Representative to the 12th Regular Session of the General Assembly

Gruenther, General Alfred M., Supreme Allied Commander, Europe, until November 20, 1956; President of the American Red Cross from 1957

Hammarskjöld, Dag, Secretary-General of the United Nations

Hansen, Victor R., Assistant Attorney General, Head of the Antitrust Division, Department of Justice, 1957

Harlow, Bryce N., Administrative Assistant to the President

Hauge, Gabriel, Administrative Assistant to the President until 1957; thereafter Special Assistant to the President

Henderson, Loy W., Deputy Under Secretary of State for Administration from January 26, 1955

Hensel, H. Struve, Assistant Secretary of Defense for International Security Affairs until 1955

Herter, Christian A., Governor of Massachusetts until 1956; Consultant to the Secretary of State, January 14–February 21, 1957; thereafter Under Secretary of State

Hill, Robert C., Special Assistant for Mutual Security Affairs Office of the Under Secretary of State, October 12, 1955–March 7, 1956; Assistant Secretary of State for Congressional Relations, March 7, 1956–June 26, 1957; Ambassador to Mexico, from July 25, 1957

Hollister, John B., Consultant to the Secretary of State, May 2–July 1, 1955; Director, International Cooperation Administration, July 1, 1955–August 18, 1957

Holman, Eugene, Chairman of the Board, Standard Oil Company of New Jersey

Hoover, Herbert C., Jr., Under Secretary of State until February 2, 1957

Howe, Fisher, Deputy Special Assistant for Intelligence, Department of State, until March 11, 1956; thereafter Director of the Executive Secretariat

Hughes, Rowland R., Director, Bureau of the Budget, until April 1, 1956

Humphrey, George, Secretary of the Treasury until July 29, 1957

Iguchi, Sadao, Japanese Ambassador to the United States until March 1956

Jackson, William H., Special Assistant to the Secretary of State, September–November 1955; Special Assistant to the President, 1956–1957; member (representing the President), Operations Coordinating Board, 1956–1957

Jacquin de Margerie, Roland, Director General of Political and Economic Affairs in the French Foreign Ministry, June 1955–July 1956

Johnston, Eric, Chairman, International Development Advisory Board, Foreign Operations Administration (after 1956, International Cooperation Administration)

Jones, Howard P., Chief, Foreign Operations Administration Mission, and Counselor of Embassy in Indonesia until July 15, 1955; thereafter Deputy Assistant Secretary of State for Far Eastern Affairs

Kalijarvi, Thorsten V., Deputy Assistant Secretary of State for Economic Affairs until March 14, 1957; Assistant Secretary of State for Economic Affairs, March 15–September 26, 1957; Ambassador to El Salvador from December 16, 1957

Kendall, David W., General Counsel of the Department of the Treasury until 1956; thereafter Assistant Secretary of the Treasury

Knoll, Jerry, Economic Defense Division, Office of International Trade and Resources, Bureau of Economic Affairs, Department of State

Knowland, William, Republican Senator from California; Senate Majority Leader until January 5, 1955; thereafter Minority Leader; member, Senate Foreign Relations Committee

Krebs, Max V., Office of the Under Secretary, Department of State

Lay, James S., Executive Secretary of the National Security Council

Lloyd, Selwyn, British Minister of Supply until April 1955; Minister of Defense, April–December 1955; Secretary of State for Foreign Affairs from December 12, 1955

Lodge, Henry Cabot, Jr., Representative at the United Nations

Ludlow, James M., Office of United Nations Political and Security Affairs

Lyon, Cecil B., Director, Bureau of German Affairs, Department of State, until June 28, 1955; Deputy Assistant Secretary of State for Inter-American Affairs, June 28, 1955–May 10, 1956; Ambassador to Chile from June 15, 1956

MacArthur, Douglas, II, Counselor of the Department of State until November 24, 1956; Ambassador to Japan from February 25, 1957

McCardle, Carl W., Assistant Secretary of State for Public Affairs until March 1, 1957

McClellan, Harold C., Assistant Secretary of Commerce for International Affairs from 1956

McConaughy, Walter P., Director, Office of Chinese Affairs, Bureau of Far Eastern Affairs, Department of State, until May 20, 1957; Ambassador to Burma from August 20, 1957

McGuire, E. Perkins, Deputy Assistant Secretary of Defense for International Security Affairs 1956–1957; Assistant Secretary of Defense for Supply and Logistics from 1957

McKay, D. Vernon, Deputy Director, Office of Dependent Area Affairs, Bureau of International Organization Affairs, Department of State, from April 8, 1956

Macmillan, Harold, British Minister of Defense until April 1955; Secretary of State for Foreign Affairs, April 6–December 20, 1955; Chancellor of the Exchequer, December 20, 1955–January 10, 1957; thereafter Prime Minister and First Lord of the Treasury

Macy, Loring K., Director, Bureau of Foreign Commerce, Department of Commerce

Makins, Sir Roger, British Ambassador to the United States until October 1956; Joint Permanent Secretary of the Treasury from October 15, 1956

Mann, Thomas C., Assistant Secretary of State for Economic Affairs from September 7, 1957

Mansfield, Mike, Democratic Senator from Montana; Senate Majority Whip from 1957; member, Senate Foreign Relations Committee

Martin, I. Jack, Administrative Assistant to the President

Merchant, Livingston T., Assistant Secretary of State for European Affairs until May 7, 1956; Ambassador to Canada from May 23, 1956

Minnich, L. Arthur, Jr., Assistant Staff Secretary to the President from 1956

Mitchell, James P., Secretary of Labor

Moline, Edwin G., Attaché at the Embassy in the United Kingdom until January 3, 1956; First Secretary-Consul until May 6, 1956; thereafter Officer in Charge of Economic Organization Affairs, Office of European Regional Affairs, Department of State

Molotov, Vyacheslav M., Soviet Minister for Foreign Affairs until May 31, 1956; Chairman of the Soviet Delegation to the 10th Regular Session of the General Assembly; First Vice Chairman, Council of Ministers, until July 4, 1957; Minister of State Control, November 21, 1956–July 4, 1957; Ambassador to Mongolia from August 1957

Morse, True D., Under Secretary of Agriculture

Murphy, Robert D., Deputy Under Secretary of State for Political Affairs

Nichols, Clarence, W., Deputy Director, Office of International Minerals Policy, Bureau of Economic Affairs, Department of State, until January 15, 1955; Chief, International Resources Divison, January 15, 1955–October 1, 1956; Deputy Director, Office of International Trade and Resources, October 1, 1956–March 31, 1957; thereafter Deputy Director, Office of International Resources

Nixon, Richard M., Vice President of the United States

Nugent, Julian L., Officer in Charge of Canadian Affairs, Office of British Commonwealth and Northern European Affairs, Bureau of European Affairs, Department of State

Ockey, William C., Office of Northeast Asian Affairs, Department of State

O'Connor, Roderic L., Special Assistant to the Secretary of State until December 1, 1955; Deputy Assistant Secretary of State for Congressional Relations, December 1, 1955–May 28, 1957; thereafter Administrator, Bureau of Security and Consular Affairs, Department of State

Ohly, John H., Deputy Director for Programs and Planning, International Cooperation Administration

O'Mahoney, Joseph C., Democratic Senator from Wyoming

Overby, Andrew N., Assistant Secretary of the Treasury until 1957

Parsons, Marselis C., Jr., Officer in Charge of Northern European Affairs, Office of British Commonwealth and Northern European Affairs, Department of State, until 1956; Deputy Director of the Office, January–May 1956; thereafter Director

Peaslee, Amos J., Special Assistant to the President

Perkins, George, Permanent Representative to the North Atlantic Council from March 14, 1955

Persons, Major General Wilton B., USA (ret.), Deputy Assistant to the President

Phleger, Herman, Legal Adviser of the Department of State until April 1, 1957

Pinay, Antoine, French Minister of Foreign Affairs, February 23, 1955–January 31, 1956

Potter, Margaret H., Chief, Trade Agreements Branch, Trade Agreements and Treaties Division, Bureau of Economic Affairs, Department of State, until April 10, 1957; thereafter Special Assistant in the Division

Prochnow, Herbert V., Deputy Under Secretary of State for Economic Affairs, November 8, 1955–November 15, 1956

Quarles, Donald A., Assistant Secretary of Defense for Research and Development until August 14, 1955; Secretary of the Air Force, August 15, 1955–April 30, 1957; Deputy Secretary of Defense from May 1, 1957

Radford, Admiral Arthur W., USN, Chairman of the Joint Chiefs of Staff until August 14, 1957

Rand, William M., Deputy Director, Foreign Operations Administration

Randall, Clarence B., Special Consultant to the President; Chairman, Council on Foreign Economic Policy, from July 10, 1956

Rankin, Karl, Ambassador to the Republic of China until December 30, 1957

Rayburn, Sam, Democratic Congressman from Texas; Speaker of the House of Representatives

Richards, James P., Democratic Congressman from South Carolina; Chairman, House Foreign Relations Committee, until January 3, 1957; Special Assistant to the

President for the Middle East with personal rank of Ambassador from January 3, 1957

Ritchie, A.E., Minister of the Canadian Embassy in the United States from February 1957

Robertson, Norman A., Canadian High Commissioner in the United Kingdom until May 1957; thereafter Ambassador to the United States

Robertson, Reuben B., Deputy Secretary of Defense, August 5, 1955–April 25, 1957

Robertson, Walter S., Assistant Secretary of State for Far Eastern Affairs

Rockwell, Stuart W., Deputy Director, Office of Near Eastern Affairs, Bureau of Near Eastern, South Asian, and African Affairs, Department of State, July 1, 1956–August 11, 1957; thereafter Director of the Office

Rose, H. Chapman, Assistant Secretary of the Treasury until 1956; member, Air Coordinating Committee, until 1956

Ross, Emerson A., Chief, Investment and Development Staff, Office of Financial and Development Policy, Bureau of Economic Affairs, Department of State

Rountree, William M., Deputy Assistant Secretary of State for Near Eastern, South Asian, and African Affairs, October 9, 1955–July 26, 1956; thereafter Assistant Secretary of State for Near Eastern, South Asian, and African Affairs

Rowan, Sir Leslie, British Second Secretary of the Treasury; Alternate Governor, Board of Governors, International Bank for Reconstruction and Development; Alternate Governor, Board of Governors, International Finance Corporation, 1957

Rubottom, Roy R., Jr., Deputy Assistant Secretary of State for Inter-American Affairs, May 16–September 14, 1956; Acting Assistant Secretary, September 16, 1956–June 18, 1957; thereafter Assistant Secretary

Russell, Richard B., Democratic Senator from Georgia; second ranking Democrat, Senate Appropriations Committee

Rutherford, M. Robert, Fuels Division, Office of International Trade and Resources, Department of State

Saltonstall, Leverett, Republican Senator from Massachusetts; second ranking Republican, Senate Appropriations Committee

Satterthwaite, Livingston, Counselor of Embassy in France until March 23, 1955; Deputy Executive Secretary of the Operations Coordinating Board, March 23, 1955–January 15, 1956; Special Assistant to the Board, January 15–August 1, 1956; Acting Director, Office of Transport and Communications Policy, Department of State, August 1–September 23, 1956; thereafter Director

Scott, Sir Robert H., Minister of the British Embassy in the United States until September 1955

Seaton, Fred A., Assistant Secretary of Defense for Legislative Affairs until February 1955; Administrative Assistant to the President, February–June 1955; Deputy Assistant to the President, June 1955–May 28, 1956; thereafter Secretary of the Interior

Sebald, William J., Deputy Assistant Secretary of State for Far Eastern Affairs until March 14, 1957; Ambassador to Australia from June 7, 1957

Shaw, John F., Office of Near Eastern Affairs, Department of State, July 3, 1955–September 23, 1956; thereafter Officer in Charge of Economic Affairs in the Office

Shigemitsu, Mamoru, Japanese Foreign Minister

Silver, Warren A., Office of South Asian Affairs, Department of State

Smith, James H., Jr., Assistant Secretary of the Navy for Air until May 28, 1956; member, Air Coordinating Committee, until May 28, 1956; Director, International Cooperation Administration, from August 19, 1957

Smith, Robert G.C., Commercial Minister of the Canadian Embassy in the United States

Sprague, Mansfield D., General Counsel, Department of Defense, 1956–1957

Stassen, Harold E., Director, Foreign Operations Administration, until June 30, 1955; Chairman, Foreign Operations Council, until June 30, 1955; Special Assistant to the President from March 22, 1955; Deputy Representative on the United Nations Disarmament Commission from August 2, 1955; member, National Advisory Council on International Monetary and Financial Problems, 1955

Stewart, Charles A., Adviser to the Mission to the United Nations, fall 1955; Counselor of Embassy in Costa Rica until November 4, 1956; thereafter Deputy Director, Office of Middle American Affairs, Bureau of Inter-American Affairs, Department of State

Stewart, Hugh A., Director, Office of Oil and Gas, Office of the Assistant Secretary (Mineral Resources), Department of the Interior

Stibravy, William J., Special Assistant to the Director of the Office of International Financial and Development Affairs, Bureau of Economic Affairs, Department of State

Strauss, Admiral Lewis L., Chairman, Atomic Energy Commission

Symington, Stuart, Democratic Senator from Missouri

Taber, John, Republican Congressman from New York; ranking Republican, House Appropriations Committee

Thibodeaux, Ben H., Director, Office of Economic Defense and Trade Policy, Bureau of Economic Affairs, Department of State, until January 15, 1955; Director, Office of International Trade and Resources, January 15, 1955–March 24, 1957; Economic Counselor of Embassy in Japan, and Director, United States Operations Mission, March 24–May 27, 1957; thereafter Minister-Counselor of Economic Affairs at the Embassy

Thorneycroft, Peter, President of the British Board of Trade until January 1957; thereafter Chancellor of the Exchequer

Timmons, Benson E.K., II, First Secretary at the Embassy in France and Director, United States Operations Mission, until July 8, 1955; Minister for Economic Affairs and Counselor with personal rank of Minister, Paris, July 8–September 13, 1955; thereafter Director, Office of European Regional Affairs, Bureau of European Affairs, Department of State

Tucker, Robert W., Office of Chinese Affairs, Bureau of Far Eastern Affairs, Department of State

Vorys, John M., Republican Congressman from Ohio; second ranking member, House Foreign Relations Committee

Waugh, Samuel C., Assistant Secretary of State for Economic Affairs until August 25, 1955; Deputy Under Secretary of State for Economic Affairs, August 26–October 1, 1955; President of the Export-Import Bank from October 4, 1955

Weeks, Sinclair, Secretary of Commerce

Whitehouse, Charles S., Special Assistant to the Deputy Under Secretary of State for Economic Affairs

Whitney, John Hay, Ambassador to the United Kingdom from February 1957

Wilcox, Francis O., Chief of Staff, Senate Foreign Relations Committee, until September 6, 1955; thereafter Assistant Secretary of State for International Organization Affairs

Williams, Walter, Under Secretary of Commerce

Wilson, Charles E., Secretary of Defense until October 8, 1957

Wilson, Brigadier General James K., Director, Office of Military Assistance Programs, International Security Affairs, Department of Defense; Director, Office of Programs and Control, 1956–1957

Wright, Robert B., Chief, Economic Defense Division, Office of International Trade, Department of State

Yeh, George King-Chao, Minister of Foreign Affairs of the Republic of China

Zaroubin (Zarubin), Georgi N., Soviet Ambassador to the United States

United States Mutual Security and Foreign Aid Policy[1]

1. Memorandum From the Counselor of the Department of State (MacArthur) to the Under Secretary of State (Hoover)[2]

Washington, January 11, 1955.

NSC Action 1290d of December 21, 1954,[3] is as follows:

"d. Requested the Operations Coordinating Board to present to the Council a report on the status and adequacy of the current program to develop constabulary forces to maintain internal security and to destroy the effectiveness of the Communist apparatus in free world countries vulnerable to Communist subversion.

"*Note*: The action in d above, as approved by the President, subsequently referred to the OCB for action."

In connection with the above, I am unable to learn the basis for the reference to "the current program to develop constabulary forces to maintain internal security and to destroy the effectiveness of the Communist apparatus in free world countries vulnerable to Communist subversion." Insofar as I know, there is no such current program.

However, I do recall that prior to General Collins' departure for Saigon we gave consideration in the Department to the formation of a constabulary as a means of giving the Vietnamese Government control over security forces because of the Diem–Minh conflict. Collins, however, came up with a concept on the mission of the Vietnamese forces which we all thought was much better. Namely, that while these forces would serve as a small blocking force of "couverture" in the event of aggression, they would also have the basic responsibility for pacification of Free Vietnam territory and the internal security of such territory.

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[1] For previous documentation, see *Foreign Relations*, 1952–1954, vol. I, Part 1, pp. 460 ff. For additional documentation on U.S. foreign economic policy, see volume IX.

[2] Source: Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Working Group on NSC 1290d. Top Secret.

[3] NSC Action No. 1290–d was taken at the 229th meeting of the National Security Council, December 21, 1954. (*Ibid.*) For text, see *Foreign Relations*, 1952–1954, vol. II, Part 1, p. 844.

I do not think the problem can be attacked on the basis that constabulatory forces per se can be the answer to internal security. What we should be talking about are effective forces to maintain security whether they be regular armed forces, police, special security forces, or constabulary, or a combination thereof. In effect, it seems to me that the OCB Working Group[4] should address itself to paragraph 37 of NSC 5501[5] approved January 6, 1955, which states that the US should assist in the development of adequate internal security forces.

Our discussions in the Manila Pact Working Group have been quite interesting in respect to this general subject.[6] The general consensus of the eight participating countries has been that subversion, generally speaking, takes the following two forms, or a combination thereof:

1. Overt insurrection.
2. Continued penetration into every sector of the national life (government ministries such as Interior, Defense, Information; trade union movements; intellectual movements; etc.) with a view to taking over the country without insurrection (i.e., Czechoslovakia) or to support an insurrection if it should be called. (This form includes fomenting local disturbances, strikes, etc.)

With respect to overt insurrection, the strong consensus of the Manila Pact Working Group has been that the regularly constituted armed forces of the nations are in the first instance the instrument which must be relied upon to deal with open insurrection. To deal with it, such forces must be effectively organized, trained, and equipped for this very important mission. In most cases (the Philippines is an exception), this would probably require a substantial change in their training doctrines and possibly additional equipment to enable such forces to have a high degree of mobility and effectiveness (armored cars, recoilless weapons, communications equipment, etc.). If National forces are really well trained and well equipped to deal with insurrection, they will exercise some deterrent against it, since if the Communists believe that such national forces have the ability to crush insurrection in the bud with consequent loss of Communist prestige, they will probably think twice before launching an effort which would be abortive. If nonetheless the Communists resort to insurrection, such armed forces would be primarily relied upon to cope with it effectively.

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[4] The OCB Working Group, also referred to as the NSC 1290–d Working Group, was established in early January 1955 to consider ways and means of carrying out NSC Action No. 1290–d. The committee was chaired by Douglas MacArthur II of the Department of State and included Major General W.W. Wensinger, USMC, Department of Defense; General J.D. Balmer, Central Intelligence Agency; General Robert W. Porter, Jr., Foreign Operations Administration; and Livingston Satterthwaite, Operations Coordinating Board.

[5] NSC 5501, "Basic National Security Policy," was approved by the NSC on January 6 and by the President on the following day. It is scheduled for publication in volume XIX.

[6] The Manila Pact Working Group was established in November 1954 to arrange an agenda for the Bangkok Conference of February 23–25, 1955. Representatives of the nations that signed the Manila Pact, September 8, 1954, later known as the South East Asia Treaty Organization (SEATO), were included in the working group and attended the February conference.

With respect to the second type of subversion mentioned above, which involves penetration, propaganda, and boring from within, the general consensus of the Manila Pact countries (with the exception of the Philippines which handles all these matters largely through the Army) is that this is best dealt with by the police and special security services, which can be much more effective in this mission if they are knowledgeable about modern police techniques and have the necessary facilities, including communications equipment. But, in the case of both regular armed forces and special service forces, a high degree of training and technical proficiency will be meaningless *unless the government in question has the will and determination to use such forces effectively and in time.*

Another aspect of the problem we face in most countries which are threatened with subversion is the very limited resources which can be devoted to their over-all security forces, both armed forces and police (including special service units). I believe we would meet with strong resistance from any country we might approach if we told them they should cut substantially their armed forces and transfer the resources thus saved to form a constabulary. Human nature plus prestige considerations in the numerical strength of their armed forces, often in comparison with neighboring armed forces, makes any government reluctant in the extreme to chop down substantially its regular national military establishment to create a constabulary or special police units. Although I have not sufficient information to make a judgment, I am sure in my own mind that there are countries that might usefully devote some of the resources which they now spend on their armed forces to special service units to deal with subversion (whether they be called constabulary or not) and yet such countries are often the most reluctant for reasons of prestige to embark on such a policy. If, on the other hand, the US deemed a supplementary constabulary-type force necessary and were willing to underwrite the entire cost of the formation and maintenance of such a body, many countries would probably be very happy to go along. This, however, except possibly in exceptional cases, would, because of the cost, probably be unacceptable to the

US in view of the very heavy nature of our existing commitments to support armed forces.

In connection with the immediate problem, which is a study called for by the NSC, I believe that NSC Action 1290d is inappropriately phrased and does not address itself to the problem, which should not be a report on development of constabulary forces per se but rather a report on the development of adequate security forces whatever they may be. That is, regular armed forces, police, special service units, constabular-type forces, or a combination thereof, to produce maximum internal security, taking into account political, psychological, and economic considerations. I do not see how this problem can be tackled on other than a country-by-country basis, for the various internal considerations and possibilities vary by country. Furthermore, the degree of urgency and priority also varies. By this I mean that rather than try to develop generalized conclusions for all countries, it would probably be most profitable first to draw up a list of those countries which we feel are most seriously threatened and where the need is greatest. Generally speaking, this would probably relate to their proximity to the Communist orbit, although in the case of Latin America, as the experience in Guatamala proved, we cannot even generalize on this.

Before calling a meeting of the OCB Working Group, I believe we should have if possible a meeting of the four geographic Assistant Secretaries under the chairmanship of yourself or Mr. Murphy to see if they are in general agreement with the above concept on how the OCB study should proceed. If they are, I think we should in State draw up a priority list of countries which we think are seriously threatened. I would then call a meeting of the OCB Working Group and espouse the concept. If there were agreement on the country-by-country approach, I would suggest:

a. That we agree on a priority list of countries where the problem is most serious.

b. That we send instructions to our diplomatic missions asking for a report with recommendations to be submitted by the Embassies, to include the views of the MAAGs (or Defense Attachés if there are no MAAGs), CIA, and FOA, on what can be done to strengthen the internal security forces taking into consideration their existing effectiveness and the political, psychological, and economic factors involved.

c. As these reports and recommendations are received we would be in a position to decide what course of action we would adopt.

This may seem to be a slow process, but there is no way that I can see for an OCB Working Group to arrive at worthwhile conclusions without the considered judgment of our people in the field.

Since I have no staff of my own other than one assistant who is kept very fully occupied across the board on matters where I have responsibilities, I would have to call upon various areas in the Department for assistance. Since this study is for the NSC, I would most definitely wish to have someone from S/P (Mr. Stelle[7] if he were available), as well as at least one officer from each geographic bureau to assist me as necessary.

Douglas MacArthur II[8]

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[7] Charles C. Stelle of the Policy Planning Staff.

[8] Printed from a copy that bears this typed signature.

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2. Report of the NSC 1290–d Working Group[1]

Washington, February 16, 1955.

Problem

To formulate a concept for U.S. assistance in the development of forces adequate to provide internal security in countries vulnerable to Communist subversion.

The Nature of Communist Subversion

1. Communist subversion takes forms which range from political penetration to armed insurrection. Communist penetration is directed against every facet of national life; government, labor unions, newspapers, educational institutions and intellectual movements. Local strikes and disturbances are fomented when they will further communist objectives. The principal objective of communist penetration is to build the capability of seizing control of a country without insurrection and at least to reduce the capacity of the local governments to oppose insurrection if the communists resort to it.

2. Armed insurrection ranges from small-scale guerrilla activity to large-scale national rebellion. The communist tactics vary from country to country. They may attempt to weaken the political and economic system in order to discredit the local government and force

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[1] Source: Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Working Group on NSC 1290d. Top Secret. No drafting information is given on the source text. Annex A to this report, containing the status of internal security forces of individual countries, is not printed.

it to accept communist participation; or they may attempt to seize control by armed force.

The Requirements of Internal Security

3. The general political and economic well-being of the country concerned is an important factor contributing to success in controlling communist subversion. In particular, the success of preventive measures depends upon development of that type of public opinion which will lead the local citizenry to identify itself with the local government and the security forces in dealing with subversion, and which will assist in inducing defections from the Communist side.

4. In the internal security field the prevention and control of communist subversion requires for the most part preventive, police-type activity including the application of limited force. Such activity includes:

a. The detection of communist agents, fellow-travellers, front organizations and other components of the communist apparatus.
b. The detention of communist personalities or groups.
c. The execution of judicial measures against these persons or groups.

5. In countries where communist subversion has reached a stage of actual or potential insurrection its control and reduction normally involves the use of greater force than is at the disposition of the normal preventive police-type services. Military-type action is therefore required in certain instances to supplement police-type action.

Internal Security Forces

6. The functions of detection, arrest and judicial action are normally vested in the civil arm of government—police, investigative services, and the courts. It is the function of these forces to discover and destroy the communist subversive apparatus before it is able to achieve important penetration. In countries where the control of subversion requires limited application of force, police-type forces are usually organized to include armed police, gendarmérie or constabulary. Such forces are generally under the direction of a civilian branch of the government and are distinct from the regular national armed forces.

7. Where police-type operations, including limited applications of force, are not adequate to cope with communist subversion the regular military forces must take action. The suppression of organized insurrection requires in addition to police-type action military-type action which can be effectively conducted only by regular military forces.

Vulnerable Countries

8. An illustrative list of countries which are threatened by communist subversion but where such subversion may still be responsive to preventive, police-type measures, including the application of limited force, might include the following: Iran, Iceland, Greece, Philippines, South Korea, Iraq, Syria, Afghanistan, Pakistan, and certain of the Latin American Republics.[2]

9. An illustrative list of countries where communist subversion has reached a stage in which military-type action is immediately or potentially required might include the following: South Vietnam, Cambodia, Laos, Thailand, Burma, and Indonesia.

U.S. Assistance in the Development of Forces for Internal Security

10. *General Considerations*. The U.S. has a vital interest in assisting free world countries to defend themselves against communist subversion. Since for most of these countries the U.S. is an important potential source of external assistance, it is in the U.S. interest that the internal security forces of these countries be able to deal with all forms of subversive penetration and insurrection both effectively and economically. In general it will be neither efficient nor economical for the U.S., initially at least, to press for sweeping changes in the general structure of the internal security forces of these countries. U.S. efforts, therefore, should be directed primarily toward improving the over-all effectiveness of existing forces.

11. *Police-type forces*. In countries where the primary requirement is to improve the capabilities of police-type forces and thus to prevent Communist subversion from making important headway, the U.S. programs of assistance for internal security should center, to the degree politically feasible, on helping to meet the following requirements:

a. Honest and competent administration, more adequate pay, better training—both basic and technical, and the elimination of unqualified personnel from the police-type forces.

b. Provision of minimum appropriate arms and equipment, including transport and communications facilities.

c. Revision of legislation to permit effective police action.

d. Revision or reorganization of judicial systems which block corrective measures.

e. Exchange of information on communist subversion and methods of identifying and combatting it.

f. Assistance in the development of information programs which make clear to the local population the nature of the communist threat and the advantages of cooperating with the local government in its efforts to eliminate subversion.

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[2] The Defense representative believes that Thailand, Burma and Indonesia should be included in paragraph 8 and excluded from paragraph 9. [Footnote in the source text.]

12. *Military-type forces*. In those countries where communist subversion has reached the stage of actual or potential large-scale insurrection U.S. assistance should include, in addition to the measures outlined in paragraph 11, primary emphasis upon coping with the threat of armed insurrection. In most of these countries the U.S. does not expect that in cases of external armed aggression the regular military forces alone can deal with large scale attacks. The regular military forces could perform little more than a covering or delaying role. In some of these countries, moreover, the U.S. would not expect to use its own armed forces locally in case of external aggression but would plan to counter such aggression with military operations directed against the aggressor elsewhere. The U.S. should therefore be prepared where necessary to see some sacrifice of the capability of the local regular military forces to meet external armed aggression in order to achieve the required capability to deal with internal insurrection. For political and morale reasons these forces must have a dual mission: (a) protecting the frontiers of the country against external attack, and (b) suppressing internal insurrection. The latter mission, however, should in practice be conceived by the U.S. as primary and in these countries the U.S. should direct its military assistance towards providing that type of training, equipment and deployment of the regular military forces which will best fit them for dealing with insurrection. The U.S. could then better deal with pressure for the provision of that type of modern heavy military equipment which is useful only for meeting overt aggression by encouraging local governments to conceive of their regular forces as primarily an instrument for dealing with subversion. To the degree that the local leaders can be brought to recognize and accept the importance of this mission, U.S. assistance can be more effectively utilized, and pressure on the U.S. for assistance in unrealistic types of equipment and organization would be relaxed.

Recommendation

13. The U.S. should adopt the following general concept for U.S. assistance in development of foreign forces for internal security:

a. It is in the U.S. national interest to assist free world countries to defend themselves against communist subversion. In general the U.S. should seek more effective use of forces and agencies in being rather than the creation of new types of security forces. Where communist subversion is in a relatively early stage of development and consists primarily of efforts at penetration, U.S. assistance for internal security should be directed primarily toward the development of effective preventive forces—police, investigative services, and judicial systems—and the development of public support for these forces. In countries where communist subversion has matured to the stage of actual or potential insurrection the U.S. should, in addition, direct its military assistance primarily toward developing the capability of the military forces of the country to take military action against insurrection. In doing so the U.S. should encourage the acceptance of action against internal insurrection as one of the primary missions of the regular military forces of the local country. The U.S. should recognize that the assignment of this mission will reduce their capability to conduct large scale military operations.

b. The precise nature of U.S. assistance and the relative emphasis to be placed on various kinds of internal security forces should be individually designed to meet the specific requirements of each country. This determination should follow a comprehensive country-by-country analysis of internal security requirements which should be immediately undertaken and completed prior to May 1, 1955.

In such a survey priority attention should be given to:

> (1) Studies of the possibilities and requirements for U.S. assistance in increasing the effectiveness of police-type forces to deal with Communist subversion in the following countries: Iran, Iceland, Greece, Philippines, South Korea, Iraq, Syria, Afghanistan, Pakistan, and certain of the Latin American Republics; [3]
>
> (2) Studies of the possibilities and requirements for U.S. assistance in increasing the effectiveness of the regular armed forces to deal with Communist subversion and insurrections, in addition to measures to increase the effectiveness of local police-type forces, in the following countries: South Vietnam, Cambodia, Laos, Thailand, Burma and Indonesia. [4]

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[3] The Defense representative believes that Thailand, Burma and Indonesia should be included in sub-paragraph (1) and excluded from sub-paragraph (2). [Footnote in the source text.]

[4] The OCB approved this report on March 9 and authorized the working group to prepare instructions requesting recommendations and analyses from the country missions. These instructions were transmitted in circular telegram 559, March 23, summarized in footnote 2, *infra*.

3. Circular Telegram From the Department of State to Certain Diplomatic Missions[1]

Washington, March 23, 1955—7 p.m.

560. For Ambassador. Re Depcirtel 559.[2] Problem of combatting Communist attempts subvert friendly governments has already received considerable preliminary study here in OCB, as result NSC decision arising from President's personal interest this subject. Reftel followed OCB approval of preliminary study completed by high level State–Defense–CIA–FOA Working Group.[3] Similar inquiries addressed to nineteen other selected Missions for response by "country teams".

Since recommendations from you and other members "country team" will carry great weight, and ultimate NSC decision can have profound effect on US foreign and defense policy for many years to come, important that: 1) best officers your Mission be assigned task preparing reply; 2) disagreements, if any, among members "country team" be spelled out clearly rather than compromised in ambiguous terms; and 3) reports be submitted on schedule.

In your discretion you may advise selected officers your Mission of contents of this message.

Dulles

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[1] Source: Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Working Group on NSC 1290d. Top Secret; Limit Distribution. Sent to Tehran, Athens, Manila, Seoul, Baghdad, Damascus, Kabul, Karachi, Saigon, Phnom Penh, Bangkok, Rangoon, Djakarta, Vientiane, and pouched to Rio de Janeiro, La Paz, Guatemala City, Santiago, Caracas, and San Jose. Drafted by E.V. McAuliffe, cleared by Douglas MacArthur II, and approved by Frederick E. Nolting.

[2] Circular telegram 559, March 23, informed recipients of OCB approval of the February 16 working paper. It requested Chiefs of Mission to prepare reports, due May 1, 1955, on how U.S. assistance might increase the effectiveness of their host country's forces in combating Communist subversion. The distribution list is identical to that for circular telegram 560.

[3] OCB Working Group.

4. Memorandum From the Director of the Foreign Operations Administration (Stassen) to the Deputy Assistant to the President (Persons)[1]

Washington, June 27, 1955.

SUBJECT

The Fiscal Year 1956 Mutual Security Program

As you know, the House Foreign Affairs Committee report on the Mutual Security Program[2] is very good.

But the votes on a number of issues were rather close in the Committee, and there will be difficulty on the floor. Strong Democratic support can be counted, and I have personally checked with Speaker Rayburn and with Chairman Richards. Thus, the key question is whether the Republicans in the House will be mobilized in sufficient numbers to uphold the Committee and to uphold the President's recommendations.

It is anticipated that the most difficult issues on the floor will be these:

1. Various attempts will be made to place under mandatory extreme restrictions, or actually to eliminate, aid to Yugoslavia—India—other neutral countries.

The arguments we have used and which the majority of the Committee has accepted are these:

a. It would play right into the Communists' hands if the United States impetuously cut off neutral countries the moment the Communists tried to woo them.

b. We do not agree with the neutralists' policies, but the indications are that they are remaining independent and sovereign, and this is very much more in the United States interest than to have them fall under Communist domination.

c. The continuation of aid should always be looked upon from the standpoint of the United States national interest, and the law contains discretionary Presidential powers. It would be a grave error to legislate rigid and mandatory foreign policy decisions in matters of this kind at any time, and especially not in advance of the Big Four sessions.

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[1] Source: Eisenhower Library, Harlow Records. Confidential. On July 1, the functions of the Foreign Operations Administration were transferred to the International Cooperation Administration under the directorship of John B. Hollister. For details of the transfer, see Eisenhower's letter to Dulles, April 15, and Executive Order 10610, May 9, printed in Department of State *Bulletin*, May 2, 1955, p. 715, and May 30, 1955, p. 889, respectively. Further documentation on the reorganization and transfer of FOA operations to the new agency and the selection of the new director is in Department of State, Central Files 700.5–MSP and 103–FOA and the Whitman and Confidential White House Central files at the Eisenhower Library. Documentation on the reassignment of FOA Director Stassen to his new post as Special Assistant to the President on Disarmament is in Department of State, Central File 101.

[2] *House Report No. 912, Mutual Security Act of 1955, Report of the Committee on Foreign Affairs on S. 2090.*

2. Amendments may be offered to reduce the Asian program[3] or to make it mandatory that all aid to Asia be in the form of loans and agricultural surpluses.

We have been successful in the House Committee and in the Senate in overcoming all these attempts with the following arguments:

a. The United States has scored a real success in Western Europe. It took seven or eight years to do it, but it is now evident to all. The Communists are now concentrating on the Asian nations. We are beginning to show success in this area. It is extremely important in the United States national interests that we follow through to a successful program that gives Japan and India and other Asian nations a chance to earn a living, to remain non-Communist, and to establish reasonable defense capabilities.

b. A substantial portion of the aid will be in the form of loans, we will use it to foster private enterprise and opportunities for private investment, we will work with United States business concerns, but if too rigid and hard restrictions are placed on the program in the first instance, this may cause the effort to fail. In this vast area we need flexibility and continuity to score another success for the United States and for the free world.

3. With the large carry-over, mostly in military funds, of unexpended balances of over $8 billion, various attempts will be made to either reduce the carry-over or cut down the new authorization.

We have been successful in the Committee and in the Senate in overcoming these efforts by explaining:

a. A program of this kind operating around the world inevitably takes a long period of time to attain results and accomplish objectives. The United States is now getting the results from efforts that go back three, five, even seven years. There must be a consistent, continuous effort for the best results.

b. It is necessary that there always be about two years' funds ahead, because on the average it is more than two years from the time Congress approves an effort until the time it is consummated. It took four years of persistent effort to get the agreement for German re-armament under the Western European Union.[4] If the relevant carry-over funds had been chopped off at any time during the four years, it would have been tragic to United States interests.

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[3] Section 418 of the Mutual Security Act of 1955 (Public Law 84–138), enacted July 8, 1955, established the "President's Fund for Asian Economic Development" and authorized $200 million to foster economic growth and cooperation. Of this amount Congress finally appropriated $100 million to be spent any time before June 30, 1958. For text of section 418, see 69 Stat. 287.

[4] The agreements reconstituting the Western European Union terminated the occupation of West Germany, recognized it as a sovereign nation, and admitted it to NATO as well as the WEU. These agreements went into effect May 5, 1955.

c. The effort we are now making not only has an immediate effect but will have a very great bearing on the security and strength of the United States three and four and more years in the future. These large carry-over funds will not be carelessly used. They will be carefully administered to gain long term sound results in the United States national interests.

4. The House made one cut of $145 million in the military funds request.

No effort should be made on the House floor to restore it, but some hope might be expressed that when it comes to conference between the Senate and House, a substantial part of it might be restored.[5]

Harold E. Stassen[6]

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[5] An attached memorandum from Persons to Presidential Assistants Harlow and Martin, June 29, noted that this memorandum was shown to the President prior to the legislative leadership meeting on June 28; see *infra.*

[6] Printed from a copy that bears this stamped signature.

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5. Summary of Discussion at a Legislative Leadership Meeting, White House, Washington, June 28, 1955[1]

SUPPLEMENTARY NOTES

Mutual Security—Sec. Dulles pointed out relationships between our Mutual Security Program, recent developments in Russia, and the Geneva Conference of the Big Four[2] soon to be held.

He believed the Soviet leaders were anxious to get some relief from the strains that beset them. Trying to keep up with our pace was one such strain, he said, for they can only hope to do so in the short run, not over a long term. We have, he continued, shown thus far in this Administration our determination to pursue a steady policy, at a level of preparedness much higher than when we came in. The Russians, on the other hand, are now experiencing political weakness—in the absence of a dictator—hence their anxiety to obtain some relief. As a result, Mr. Dulles thought, we should obtain something very worthwhile from our discussions either in terms of Germany, or the satellite states, or some cessation of their international subversive effort—the Cominform.

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[1] Source: Eisenhower Library, Whitman File, Legislative Meetings. Confidential. Drafted by Minnich. The legislative leaders met with the President and Secretary Dulles.

[2] The Geneva Summit Conference, held July 18–23, brought together President Eisenhower, Prime Minister Anthony Eden of the United Kingdom, Premier Edgar Faure of France, and Premier Nikolai Bulganin of the Soviet Union. For documentation, see vol. V, pp. 119 ff.

At this immediate time, he asserted, we should maintain the pressure rather than show any signs of softening, hence we ought to get this Mutual Security Program through. Mr. Dulles pointed out how much of the program would be devoted to loans—necessarily soft ones.

Sen. Knowland and Rep. Vorys both stressed the desirability of having a Congressional stipulation as to a required percentage of loans, otherwise the funds might be overweighted on the grants side. Mr. Dulles felt that a stipulation acted more as a limit rather than a requirement, for the foreign countries expected all to be grants after the Congressional requirement should be met. Mr. Stassen pointed out that we are making more loans rather than grants to the Coal and Steel Community than Congress had stipulated.

Turning to Yugoslavia, Mr. Dulles stressed that it was the best leverage we had for getting an increased independence of the satellites. Russia seemed to have eaten humble pie at Belgrade, he said, and we should not risk any action that would tend to drive the Yugoslavs back to their Russian connections.

As regards India, he thought that if that vast population should lean towards Communism, there would be a great and serious impact on all of Asia. We are not awarding gifts for policies we dislike, he explained, we are simply trying to prevent India from moving towards Communism.

As regards the Geneva meeting, Mr. Dulles said we are going there with a feeling that we may be able to set up processes that may lead to improving the security of the free world and the United States. There is some basis for hope that the Soviet frontiers can go back in such a way as to leave independent "cushion" states between Russia and free Europe.

Questioned by Sen. Saltonstall about Molotov's attitude at San Francisco, Mr. Dulles said Molotov professed ignorance of international activities. Mr. Dulles added that he did *not* expect Russia to admit that these questions could be open to discussion, but he thought that they might in fact take some steps that we would see as desirable.

Sen. Knowland agreed that neither Yugoslavia nor India should be cut out of the program, but he felt it important to carry through the equipment inspection regularly required. He said that if we let Yugoslavia get away with this denial of what we should be able to do, it would be discriminatory against our allies. Also, as regards India, it would be bad if the impression got established around the world that we reward neutralism. Sec. Dulles agreed that we should continue to press Tito for some arrangement on this, and we are currently negotiating with him about it; indeed, it helps our negotiators to have Congress take this position. As for India, we give much more assistance to the other nations who are willing to stand up and be counted.

Rep. Vorys asked about the communiqué issued after the Belgrade visit of the Russians—was it as satisfying as it appeared to be? Mr. Dulles said that was uncertain.

[Here follows discussion of unrelated subjects.]

L.A. Minnich, Jr. [3]

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[3] Printed from a copy that bears this typed signature.

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6. Note From the Acting Executive Secretary of the National Security Council (Gleason) to Members of the Council [1]

NSC 5525 *Washington, August 31, 1955.*

STATUS OF NATIONAL SECURITY PROGRAMS ON
JUNE 30, 1955

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[1] Source: Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5525 Series. Top Secret. NSC 5525 is a collection of reports prepared by various executive agencies. Part 2, printed here, was prepared by the Department of Defense and the International Cooperation Administration. Part 6, prepared by USIA, is printed in vol. IX, p. 529. Further documentation is in Department of State, S/S–NSC Files: Lot 63 D 351, 5525 Series.

REFERENCES

A. NSC 5501, NSC 5434 [2]
B. NSC 5509, [3] NSC 5430, [4] NSC 5407, [5] NSC 161, [6] NSC 142, [7] and NSC 135 [8]
C. Memo for NSC from Executive Secretary, subject, "Status and Timing of Current U.S. Programs for National Security," dated August 9, 1951 [9]

This over-all report on the status of national security programs on June 30, 1955, is transmitted for the information of the National Security Council. Pursuant to Presidential direction, the several parts and annexes have been prepared by the responsible departments and agencies with the assistance of the NSC Special Staff. These status reports have been prepared semi-annually; previous ones were issued as NSC 5509, NSC 5430, NSC 5407, NSC 161, NSC 142, and NSC 135. Beginning with this report, they will be prepared annually.

Enclosed herewith are a Table of Contents, a complete set of tabs, Parts 5, 6, and 7. The remaining parts of NSC 5525 will be transmitted upon their receipt.

Each part is classified separately and may be handled separately in accordance with its highest security classification. Each copy of NSC 5525 as a whole, however, should be handled with special security precautions and limited in circulation on a need-to-know basis.

S. Everett Gleason [10]

[Enclosure]

[Here follow a table of contents listing the eight parts comprising NSC 5525, and a foreword and table of contents to Part 2.]

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[2] NSC 5434/1, "Procedures for Periodic Review of Military Assistance Programs," October 18, 1954, approved by the President, October 16, 1954, is printed in *Foreign Relations*, 1952–1954, vol. I, Part 1, p. 786.

[3] NSC 5509, "Status of U.S. Programs for National Security as of December 31, 1954," is in Department of State, S/S–NSC Files: Lot 63 D 351.

[4] NSC 5430, "Status of U.S. Programs for National Security as of June 30, 1954," is *ibid.* Extracts are printed in *Foreign Relations*, 1952–1954, vol. II, Part 2, p. 1777.

[5] NSC 5407, "Status of U.S. Programs for National Security as of December 31, 1953," is summarized in an editorial note, *ibid.*, Part 1, p. 633.

[6] NSC 161, "Status of U.S. Programs for National Security as of June 30, 1953," is in Department of State, S/S–NSC Files: Lot 63 D 351.

[7] NSC 142, "Status of U.S. Programs for National Security as of December 31, 1952," is *ibid.*

[8] NSC 135, "Status of U.S. Programs for National Security as of June 30, 1952," is summarized in an editorial note, *Foreign Relations*, 1952–1954, vol. II, Part 1, p. 56.

[9] Not printed. (Department of State, S/S–NSC Files: Lot 61 D 167)

[10] Printed from a copy that bears this typed signature.

PART 2—STATUS OF THE MUTUAL SECURITY PROGRAM AS OF JUNE 30, 1955

Part 1. Mutual Security Programs in Support of Military Forces

I. General Summary

A. Definition and Scope of Defense-supporting Programs

Defense-supporting economic assistance is being furnished or is contemplated to carefully selected and strategically located free world countries in a wide arc which virtually surrounds the Soviet Bloc. These countries are united with the US in a common cause: to resist Communist penetration or domination of the free world. US assistance is designed to render their joint defensive strength more effective, and to help them achieve the economic strength which will, in the long run, enable them to maintain without further aid the forces which the US believes to be required.

Each of these countries faces three main demands upon its resources: defense, current consumption, and investment—the latter to provide a growing base for increasing productive capacity to meet the future needs of defense, consumption needs of expanding population, and tangible increase in living standards. Few free world countries—outside of Europe and North America—possess indigenous resources in sufficient volume to maintain a tolerable standard of living for their people and at the same time commit the human and capital resources necessary for adequate defense and investment. They are, in many cases, virtually forced to devote top priority to consumption and investment. US security interests dictate that they make adequate provision for these needs, not only to sustain the necessary will, strength, and stability to face the Soviet threat and to provide constructive and attractive alternatives to Communism, but also, through economic development generally, to reduce the need for future US assistance. Meantime, US assistance provides the marginal resources required to bridge the gap between those military forces which could be maintained by them without aid and those which the countries and the US agree to be necessary, without impairing economic development.

MSP economic assistance to countries in which the US is helping to develop or maintain specific levels of military strength (via MDAP) has in the past taken one or both of the following forms:

1. *Direct Forces Support.* Programs within this classification provide to military, para-military, security, or police forces, direct support which is additional to the regular military assistance (MDAP) which those forces are also receiving. These programs provide the soft

goods (i.e., items other than military hardware) which are essential to the maintenance of a military force. Such items are delivered or rendered directly to friendly forces for their exclusive use or control and do not ordinarily enter into the local economy of the recipient country prior to delivery. The purpose of this program is military; any economic benefits which may accrue to the country are incidental.

2. *Defense Support*. Programs within this classification are designed to support the military efforts of certain countries which receive MDAP assistance. Such support involves the provision of general supplemental resources which a recipient country requires if its economy is to support a defense program of the size which US policy regards as essential and if, at the same time, it is to maintain or attain the minimum level of economic strength or growth which is consistent with the US national interest. The primary policy reason for defense support programs is the attainment of military objectives, rather than the extension of any economic benefits which may also accrue to the recipient nation. However, where a defense support program is required in a country for this policy reason, other non-military assistance which is essential from the standpoint of US national interest may also be grouped under the heading of "defense support". This practice avoids an unrealistic fragmentation into several artificial components of a totally integrated assistance program.

Direct forces support differs from defense support in that the former consists of articles or services which can be traced in a physical sense from a point of import into the country directly to the soldier who uses it; the latter has its military impact as a country's economy is rendered capable of sustaining the desired enlargement of its defense burden.

It should be noted that the definition of direct forces support is somewhat more restricted than that which held in the past. It excludes any supplies which are to be sold within a country to finance the local currency costs of military projects (as, for example, military construction) for which the direct forces support program is furnishing imported goods. Program figures for defense support and direct forces support for FY 1955 and prior years, as set forth in the several country tables, have been adjusted to show those portions of the program which would be included under the new FY 1956 functional definitions.

It should also be noted that direct forces support for FY 1956 will no longer be administered by ICA. Since the dividing line between MDAP and direct forces support is imprecise, they have been considered as two phases of the military program, and will be administered by the Department of Defense. For reporting convenience, however, both direct forces support and defense support programs are covered in the ICA report through June 30, 1955.

Parenthetically, as a direct result of this transfer, complications have arisen in the administration of military support programs. These complications stem from the close relationship between defense support and direct forces support programs. In many instances, a defense support program, administered by ICA, actually provides the local currency component for a direct forces support project, the dollars for which have been appropriated to the Department of Defense. The problem is further complicated by the fact that there are competing needs for this local currency. While ICA and the Department of Defense are endeavoring to resolve these problems, it would appear to be appropriate to review the decision to transfer to the Department of Defense the responsibility for administration of dollars in the direct forces support program.

Aid of the above types has been provided in FY 1954, FY 1955, and is tentatively programmed for FY 1956, by areas as follows:

	FY 1954[11]	FY 1955	FY 1956
	(in millions of dollars)		
Europe	445.1	187.2	89.5
Near East and South Asia	182.7	255.2	224.2[14]
Far East	1,129.8[12]	980.7[13]	998.7[14]
	1,757.6[12]	1,423.1[13]	1,312.4[14]

The trend indicated by the foregoing figures has been evident for a number of years: a progressive decline in assistance—and in the proportion of such assistance—to Europe, while the proportion of funds for the Near and Far East has risen. This reflects a considerable measure of success in meeting both military and economic targets in Europe; of the Western European countries, only Spain and Yugoslavia are scheduled to receive defense support or direct forces support in 1956. On the other hand, the US has shown an increasing measure of concern with the weakness of the free world's military position in the Near and Far East.

The distribution and magnitude of defense support and direct forces support generally follows the strategic and political aspects of

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[11] Actual obligations. [Footnote in the source text.]

[12] Excludes $172.0 million DFS programmed from non-Mutual Security appropriations of Department of Defense. [Footnote in the source text.]

[13] Excludes $189.6 million DFS programmed from non-Mutual Security appropriations of Department of Defense. [Footnote in the source text.]

[14] Excludes $100 million President's Fund for Asian Economic Development not distributed between the Far East and South Asia. [Footnote in the source text.]

US foreign policy. The annex to this report shows the amount of defense-supporting aid, by country, for FY 1955 and FY 1956.

B. Achievement of Objectives

The nature of the country programs differs widely from region to region, and even within regions—in accordance with the specific problems which each program is designed to meet. For this reason, an integrated appraisal of the status of the ICA world-wide program is difficult. Nevertheless, a number of clearly defined *regional* conclusions may be drawn, and in some instances world-wide judgments may be justified.

1. *Maintaining Military Strength, Mutuality of Interest, and Common Purpose*. The reporting period witnessed a continuation of trends already established in the past:

a. Despite some slippage from force goals, NATO continues to attempt to achieve its multilaterally agreed targets. However, there is some question as to the effectiveness of these forces, largely as a result of the failure of the NATO countries to provide adequate monetary support. The levelling-off in Western European defense expenditures has almost certainly been influenced by a similar levelling in US expenditures. General Gruenther's concern over the low level of military effectiveness of the NATO forces—which can probably only be corrected by increased country defense expenditures and analogous increases in US aid—has resulted in the calling of a special meeting of the NATO defense ministers in October 1955 to consider this serious problem.

b. Modest progress has been made toward a cohesive Middle Eastern defense arrangement, with the establishment of a series of regional defense alliances linking Yugoslavia, Greece, Turkey, Iraq, and Pakistan. The Northern Tier as a defensive alliance is moving beyond the paper stage. However, there are serious limiting factors: economic weakness in Pakistan and economic over-commitment in Turkey give cause for concern; Iran's defense mission has yet to be established; and Greek-Turkish relations are strained as a result of the Cyprus issue. The whole concept of a Northern Tier defense appears to lack clear formulation both as to the political objectives which might be achieved and the possibilities of developing a truly effective military force in the area.

c. Military strength in the Far East continues to rise. The US has concluded mutual defense treaties with Japan, Korea, and Formosa; Cambodia signed a military defense agreement with the US in May; defense capabilities in the Philippines and Thailand have risen. It is apparent, however, that the military forces of most countries in the Far East are disproportionate to their present or potential ability to maintain such forces, although not necessarily in relation to the potential threat. It should be noted that Formosa and Korea have military objectives which go beyond those which the US supports.

2. *Economic Growth*. The existence of conditions in the free world which the Communists can exploit makes it difficult for the free

world to overcome divisions, fears, and weaknesses. With US assistance, the free world has made progress in meeting the basic needs and aspirations of its people. Here, again, the situation differs from region to region.

a. Europe has progressed to the point where economic aid has been discontinued for FY 1956 except for Spain, possibly Yugoslavia, and the Joint Control Areas (Austria, West Germany, West Berlin, and Trieste) and limited instances where technical exchange can be an effective instrument of US policy. But Europe is still falling behind both the US and the Soviet Union in its rate of growth.

b. The favorable trends which had held in Greece and Turkey have been reversed. Both are feeling the pressure of overambitious economic expansion and outsize military forces. The Iranian economy is on the upturn as oil revenues are again available. Development progress in Pakistan has been limited; the future outlook is uncertain.

c. Despite the advances which have been made over the past several years, the general low level of economic development in the area constitutes a serious weakness in the free world's economic fabric—particularly serious in view of its proximity to the comparison area of Red China. The Far East is suffering from inability to export its rice surpluses in the face of expanding production. Japan's trade deficit declined sharply, although the economy continues to depend upon extraordinary dollar receipts.

3. *Progress Toward Convertibility*. Encouraging steps were taken by European countries toward limited currency convertibility. The favorable economic climate of the first half of 1955—somewhat checked by unfavorable balance of payments developments in the UK and the Scandinavian countries—produced an increased volume of intra- and extra-European trade, and a continued rise in dollar reserves. The OEEC Council of Ministers in January set a new target of 90 percent for intra-European trade liberalization; in June the ministers renewed the European Payments Union (EPU)[15] and provided for settlement of FY 1956 deficits and surpluses on a 75 percent hard-currency and 25 percent credit basis, instead of the previous 50–50 ratio. EPU will be continued until member countries accounting for at least half of total intra-European trade establish limited convertibility of their currencies with the dollar. A new European Fund for extending loans, a new system of multilateral settlements, and modification of the Liberalization Code will be instituted upon the establishment of limited convertibility and the termination of EPU. However, it is clear that while progress toward

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[15] The European Payments Union was established by the nations of Western Europe September 19, 1950, to facilitate currency convertibility and reduce trade barriers between its members.

convertibility will continue, actual attainment of a form of convertibility is still some time off.

4. *New Capital Investment.* While figures on actual private investment in the first six months of 1955 are not yet available, there was evidence of private as well as government efforts to stimulate such investments. Three US investment companies were in the process of formation, with the announced purpose of mobilizing US capital for investment abroad. The ICA investment guarantee program to encourage American capital to move into overseas investments was intensified; in the first half of 1955, total value of guarantees written increased from $48.6 million to $91.4 million, a rise of 88 percent. New guarantees covered for the first time American private investments in Formosa and the Philippines; other guarantees issued in the six months protect investments in France, Italy, the Netherlands, Turkey, and the UK.

C. Major Issues

1. The previous MSP status report (NSC 5509) listed two issues of major and fundamental importance which affect virtually all defense-supporting economic aid programs in the free world and particularly in the underdeveloped countries of Asia, which now receive the bulk of defense-supporting funds:

a. Whether the primary emphasis from the standpoint of US interests should be placed (1) on the attainment or maintenance of internal stability through economic development, improved living standards, and social progress, with the necessary corollary of smaller indigenous forces backed up by US power; or (2) on creating substantially larger indigenous forces, with proportionately heavier internal economic burden for defense and a lower rate of economic and social progress. This issue is particularly critical for countries such as Pakistan, Korea, Cambodia, Laos, and Vietnam.

b. Determination of specific military missions for the defense forces of the country to which military and supporting economic aid is being supplied. Clarification of the role of military forces in countries such as Pakistan, Iran, Spain, Japan, Thailand, Formosa, and several others is essential to accurate determination of program requirements and goals for support of such forces.

2. In essence, resolution of these issues requires that judgment be made of the value, to the US, of a military force for a given mission in relation to its cost to the country's development and to the US in terms of the US investment in that force.

3. In the scale of ultimate US objectives, the economic strength of the free world bulks as large as its military strength. To assure the steady growth of its economic strength, the following steps are proposed:

a. Determine the costs to each aid-receiving country of raising and maintaining forces of the size and composition which are considered necessary to carry out military missions which are important to US security.

b. Through inter-agency and inter-country negotiations, determine the level and type of forces which such country can maintain without US assistance and which, over the next decade or so, the economy of such country can be developed to support.

c. Accept the fact that forces above this level can only be supported, if they are to be supported at all, by US assistance.

d. Through State, Defense, and ICA negotiation, reach clear agreement with each country on the level and types of forces which that country can be developed to maintain and on the responsibilities which the US and the country will assume in advancing the country's economic development to a level adequate to maintain such forces. Forces and equipment above this level would be supported entirely by the US, to avert the adverse effects (which would not be in the US interest) upon the economy of the country which would result from maintenance of the larger forces.

[Here follow Section II, "Western Europe;" Section III, "Near East, South Asia, and Africa;" and Section IV, "Far East."]

Part 2. Other Mutual Security Programs

(Submitted in accordance with Memorandum for the Secretary of State from the Executive Secretary of the NSC, dated July 1, 1955 [16])

I. General Summary

This section contains the status report on those segments of the Mutual Security Program which are not linked to the provision of military end-item aid under MDAP and are, for that reason, not included in the special report on ICA programs supporting defense—Part 1 of this status report. The purpose of these non-defense-related programs is to advance the economic development of underdeveloped areas in the interests of US national security, to promote local incentives and catalyze self-help. They are also used on occasion to cope with special problems such as financial and budgetary crises not directly related to defense, natural catastrophes, special refugee situations and similar problems.

Such assistance is in many cases provided on the basis of willingness and ability of countries to strengthen and defend their independence against Communist expansion rather than on formal alignment with the US, but is also provided to countries in which the development of economic strength and political stability generally is in the US interest.

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[16] Not found in Department of State files.

Assistance programs for these countries generally include one or both of the following forms:

a. *Technical Cooperation*

Technical cooperation programs may be defined as programs for the sharing of our knowledge, experience, techniques and skills with the peoples of the less developed areas of the world for the purpose of helping them to further their economic development and increase their standard of living. These programs emphasize, and consist largely of advice, teaching, training and the exchange of information, and they do not include the provision of supplies and equipment beyond that which is required for effective teaching and demonstration purposes. Moreover, except for these last mentioned purposes, they do not supply the capital which may often, if not always, be indispensable to the conversion of the knowledge, skills, techniques and experience which are thus provided into economic wealth, improved standards of living and other tangible benefits among the peoples of the recipient countries.

b. *Development Assistance*

This term describes assistance given primarily to promote economic development or otherwise to create or maintain economic or political stability. In most nations for which it is programmed, development assistance will supplement programs of technical cooperation by providing supplies, commodities or funds. Usually this type of assistance is required to make possible, or to accelerate, projects or activities which basic US interest requires to be undertaken and which, in the absence of such additional assistance, would not be undertaken, or, if undertaken, would not be carried out at the rate required by US foreign policy. MSP funds in FY 1956 for development assistance will be used to help accelerate present rates of economic growth in the underdeveloped countries where US national security requirements for such growth cannot be met by local and foreign private capital or from financing from the IBRD, Export-Import Bank or similar sources.

Development assistance differs from defense support in that the former is immediately directed toward goals which are not primarily military in character, whereas the latter has as its first aim, and controlling justification, the attainment of military objectives. With minor exceptions (e.g., Latin America) development assistance is limited to countries which do not receive military assistance.

Areas receiving assistance under development assistance and technical cooperation programs include Israel and the Arab States in the Near East; Liberia, Libya, Ethiopia in Africa; India, Nepal and Afghanistan in South Asia; Indonesia in the Far East; the Latin American republics (except Argentina); and the overseas territories of European powers in Africa and the Western Hemisphere. While Ethiopia, Iraq and certain Latin American countries do in fact receive military assistance, the economic aid programs (principally technical cooperation) are addressed wholly to economic development and social progress rather than to support of the defense effort. Technical cooperation programs, however, are in effect in a number of countries receiving defense support.

Aid of the foregoing types has been provided in FY 1954 and FY 1955, and will be provided in FY 1956, by areas as follows:

(in millions of dollars)

	FY 1954[17]	FY 1955	FY 1956
Near East, Africa and South Asia	226.1	239.6[18]	242.0[19] [21]
Far East	10.0[20]	28.3	38.0
Latin America	27.1	47.9	67.0
Total	263.2	315.8	347.0

The annex to this report shows the amounts of developmental aid of these types for each country, as finally programmed for FY 1955 and as proposed for FY 1956.

[Here follow Section II, "Near East, South Asia, and Africa;" Section III, "Far East;" Section IV, "Latin America;" and Annex I, "FY 1955 and FY 1956 non-MDA Programs."]

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[17] Actual obligations. [Footnote in the source text.]

[18] Includes $16.7 million Palestine Refugee Program. [Footnote in the source text.]

[19] Includes $62 million Palestine Refugee Program. [Footnote in the source text.]

[20] Covered by deobligations from Burma program. [Footnote in the source text.]

[21] Excludes $100 million President's Fund for Asian Economic Development, not distributed between the Far East and South Asia. [Footnote in the source text.]

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7. Memorandum From the Director of the Office of International Financial and Development Affairs (Corbett) to the Deputy Under Secretary of State for Economic Affairs (Prochnow)[1]

Washington, October 28, 1955.

SUBJECT

Inter-Agency Committee for the Coordination of Military and Economic Aid Programs

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[1] Source: Department of State, OFD Files: Lot 59 D 62, Interdepartmental Committee—Aid programs, 1956. Secret. Drafted by E. A. Ross and sent through and initialed by Kalijarvi.

The Operations Coordinating Board has established an interagency committee, with you as Chairman, to examine our military and economic aid programs and to make appropriate recommendations. This committee was established at the instigation of Mr. Hoover. The other members are Mr. Gordon Gray, Assistant Secretary of Defense for International Security Affairs; Mr. Ohly, Deputy Director for Programs of the International Cooperation Administration; and Mr. Overby, Assistant Secretary of the Treasury. It is expected that the Budget Bureau will be represented in an observer capacity, and the Central Intelligence Agency in an advisory capacity.

The exact terms of reference for this committee have not yet been finally approved by the Operations Coordinating Board. Final approval has been delayed until your return. The latest draft of the terms of reference is attached.[2]

The problem of properly coordinating our military and economic aid program has been recognized for some time. Various attempts have been made to deal with the problem but with limited success. We find that frequently commitments on military programs are made with inadequate study of the impact on the economy of the country concerned and in turn on its implications for United States economic assistance. In recent months, problems have arisen in connection with the Turkish and Pakistan programs, requiring substantial additional amounts of U.S. economic assistance in order to attain our military and economic objectives in those countries. It is likely that similar problems for a number of other countries are just over the horizon, if not closer. We believe that the emergence of these serious situations and the possibility of more to come is the basic reason for taking a new look with an OCB committee.

As you can well imagine, the job is not a small one. In fact, it is a very large and difficult one. The factors to be considered include as precise a statement as possible of our military and economic objectives in a given country, the ability and willingness of the country to support programs consistent with these objectives, the translation of the above factors into the amount of military and economic aid required, the length of time this must be continued, and finally, the problem of whether the United States is prepared to finance the amounts required or whether some change in objectives is preferable.

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[2] Not printed. The final terms of reference is printed as Document 12.

The problem can be narrowed to some degree, because it is most acute in the economically underdeveloped countries where we are encouraging rather substantial defense efforts. At least initially, it is felt that the Latin American countries can be set aside, inasmuch as we do not have very large military or economic programs in that area. Likewise, in the NATO countries of Western Europe, there is no longer any economic aid, the countries have become increasingly strong economically, and the military program is pretty well stabilized. It is in the following countries that the problem is most acute:

Pakistan
Turkey
Iran
Greece
Spain
Japan
Korea
Formosa
Thailand
Viet-Nam
Laos
Cambodia
Philippines

Perhaps the best way for the committee to proceed would be to establish inter-agency working groups for each country which the committee feels should be examined. It is suggested that each working group should have as its chairman a representative of the appropriate regional bureau of the State Department and as members a representative from the E area, a representative from Defense, ICA and Treasury. Other agencies might attend when they could be helpful. These working groups would then develop facts, make analyses and reach conclusions. Your committee, in turn, would consider the situation in each case and make appropriate recommendations to the Operations Coordinating Board.

An inter-agency working group already exists for Pakistan and has recently made a report, which has been referred to your committee. It would seem that after the general procedural questions are out of the way, this Pakistan report would become the first item of substantive business for your committee. We are now examining this report with the purpose of determining whether the pertinent facts and issues are presented in such a way that your committee could take effective action. Our preliminary view is that it needs to be more explicit concerning our military objectives and commitments. Inasmuch as this is perhaps the principal basic jumping off place for further consideration and analysis, this would seem to be a fatal weakness. However, we would like to make a more considered and detailed report on this in the near future. An inter-agency working group is also in existence for Turkey. It had a somewhat different objective, and although it also made a report several months ago, it was made on the premise that the military program was a fixed quantity and not to be questioned. Therefore, it is likely that this report will need to be reconsidered before being submitted to your committee.

As soon as the Operations Coordinating Board makes the final determination on the terms of reference for your committee, you will probably want to call a meeting to discuss methods of proceeding and perhaps also to consider the report of the working group on Pakistan. Mr. Waugh earlier called a meeting of the committee, but at that time the representatives of the other agencies were not familiar with the action of the Operations Coordinating Board in setting up the committee, so that no formal inter-agency work under the auspices of the committee has been started.

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8. Memorandum of Discussion at the 266th Meeting of the National Security Council, Washington, November 15, 1955[1]

[Here follows a paragraph listing the participants at the meeting. The Vice President presided.]

1. Significant World Developments Affecting U.S. Security

[Here follows discussion of unrelated subjects.]

With respect to his next subject, Mr. [Allen] Dulles said that the Central Intelligence Agency had been piecing together and collating all available information from all available sources on moves by the Soviet Bloc to move in on the underdeveloped areas of the free world, notably in the Near East and Southeast Asia. When all these Soviet Bloc moves were listed, they indicated a pattern of coordinated long-term and high-level operations designed to advance Communist influence in all these areas. Thereafter Mr. Dulles listed actual measures of assistance or offers of assistance made by the Soviet Bloc to the following countries: India, Afghanistan, Indonesia, Turkey, Iran, Syria, Lebanon, and Burma.

At the conclusion of Mr. Dulles' report, the Vice President inquired as to the specific nature of the acts or promises of assistance to these countries offered by the Soviet Union. Did they consist of loans or gifts? Mr. Dulles replied that mostly they consisted of loans at low interest in return for local currencies or local exports. Secretary Wilson commented that the United States seemed to have no equivalent to match these Soviet techniques. U.S. assistance either took the form of outright gifts or else constituted loans in return for hard currencies. The Vice President expressed considerable concern over this point.

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Prepared on November 16 by Gleason.

The Under Secretary of the Treasury, Mr. Rose, asked Mr. Dulles if he had any notion of the over-all magnitude of this Soviet Bloc effort in terms of dollars. Mr. Dulles replied that of course you could add up all the individual items which he had listed for all the individual countries; but the matter was complicated by the fact that many of these assistance programs were still in the offer stage. On the other hand, even Soviet Bloc offers of assistance had a very considerable impact on the position of the United States in these underdeveloped areas of the world.

The Vice President stated that Mr. Dulles' report indicated to him that the Administration must give very serious thought to the question whether or not it held adequate cards to play against the Soviet Bloc. The United States might presently be faced with some very painful alternatives if it was effectively to meet the situation to which the Soviet aid program had given rise. The Vice President asked if Mr. Dulles shared this opinion.

Mr. Dulles replied that the situation was one which certainly deserved most careful study. Obviously the United States had the capability to match or outstrip any Soviet program. He pointed out that all these underdeveloped countries were very deeply impressed with what the Soviet Union had been able to accomplish, from an industrial and economic point of view, in the course of the last fifteen or twenty years. This seemed more impressive than the accomplishments of the United States, which had had such a long history of industrial development and which was essentially so rich. Comparison of the U.S. and the USSR assistance had convinced many officials of the underdeveloped countries that, for their countries at least, the Soviet system might have more to offer in the way of quick results than the U.S. system.

Secretary Wilson commented that programs of economic assistance to underdeveloped countries posed a very difficult problem for the United States. If we went in and spent our money building industrial plants and other installations for some backward country, who was going to have title and ownership over these plants which had been built with U.S. funds? If the ultimate owner was the state, we would be helping these countries to proceed down the road which led to state socialism or to Communism. Was it not possible, therefore, to see that ownership of some of the plants and installations built by U.S. assistance programs ultimately got into the hands of some small native capitalists? If this could be done we might counter the evident socialist trend in many of these areas.

Mr. Allen Dulles answered Secretary Wilson by saying that there could be very little doubt that the state would end up owning most of the plants and facilities constructed in an underdeveloped country as a result of U.S. assistance programs.

The Chairman of the Atomic Energy Commission expressed great sympathy for Secretary Wilson's point of view, and said that the problem he had raised also affected the AEC very directly. The AEC was on the verge of constructing small power reactors for various countries overseas. In so far as we continued to deal on a government-to-government basis with respect to such programs, we were in effect simply encouraging TVA projects in the countries for which we provided power reactors. Admiral Strauss said that he would appreciate an expression of the Council's views on the wisdom of this course of action before he went ahead with carrying out programs for constructing power reactors to be sent abroad.

The Vice President then suggested that this was perhaps a good point at which to terminate discussion of the report which Mr. Dulles had made, but he hoped that the NSC Planning Board[2] would take account of Mr. Dulles' report and come up to the National Security Council with a suggested U.S. program to counter the program of the Soviet Bloc so carefully outlined by Mr. Dulles.

Mr. Dillon Anderson indicated that at two forthcoming meetings of the National Security Council an opportunity would be presented to the Planning Board to carry out the Vice President's suggestion. The problem would certainly come up in the forthcoming Council review of the military assistance programs world-wide. A second opportunity would be presented to the Planning Board to make recommendations when the Planning Board produced for Council consideration its revision of the basic national security policy (NSC 5501).

Mr. Allen Dulles said that it was none too soon to start right now to develop hard information which would indicate to the countries who would receive Soviet aid that in point of fact receiving this aid constituted the first step which ultimately led to a Communist take-over. The Soviet Bloc program which he had described was not genuine economic assistance to underdeveloped countries, but political penetration in disguise. Secretary Wilson added that the Soviet program actually constituted a new form of colonialism.

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[2] The principal policy formulating body of the NSC whose voting membership consisted of the Special Assistant to the President for National Security Affairs (chairman) and representatives from the Office of Civil and Defense Mobilization, the Bureau of the Budget, and the Departments of State, Defense, and the Treasury.

The Vice President suggested that the essentials of Mr. Dulles' report might usefully be given to the President at the earliest opportunity. To the Vice President, at least, Mr. Dulles' report had been "an eye-opener".

The Acting Secretary of State expressed the opinion that the total cost of the Soviet Bloc assistance program wouldn't amount to very much in comparison with comparable U.S. programs. If you dealt in terms of what was actually being done, as opposed to offers which were dangled before the underdeveloped countries, the program was quite small. Accordingly, Secretary Hoover suggested the advisability of putting a price tag on each of the items which made up the Soviet Bloc program of assistance to the underdeveloped countries. Mr. Allen Dulles suggested that the picture would not be complete without the addition of the recent Soviet Bloc arms deal, and Secretary Wilson wished to have incorporated in the revised report some reference to the problem of the ultimate ownership of factories and installations provided to the underdeveloped countries through U.S. economic assistance programs. Secretary Hoover endorsed Secretary Wilson's suggestion, and added his own opinion that in many instances our assistance programs were actually subsidizing state socialism in the underdeveloped areas.

Admiral Radford raised the question of the desirability of having a study as to why the Soviet Union seemed to gain so much influence with so small an outlay of resources, as compared to the United States. For example, we have been assisting India to overcome its economic problems for a number of years and with quite considerable funds, and yet we received absolutely no credit in India for the assistance which we had been rendering.

The Vice President wondered whether Mr. Hollister might not have something to say on this problem after he returned from his trip to the Far East.

The National Security Council: [3]

Noted and discussed an oral briefing by the Director of Central Intelligence on the subject, with specific reference to the French political situation; the Philippine election results; the situations in Brazil and Argentina; and a summary of the apparently coordinated program of Soviet Bloc assistance to underdeveloped areas, particularly in the Middle East and South and Southeast Asia.

[Here follow items 2–4.]

S. Everett Gleason

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[3] The paragraph that follows constitutes NSC Action No. 1475. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1955)

9. Memorandum of Discussion at the 267th Meeting of the National Security Council, Camp David, Maryland, November 21, 1955 [1]

[Here follows a paragraph listing the participants at the meeting.]

1. Significant World Developments Affecting U.S. Security

The Director of Central Intelligence referred briefly to growing Communist pressures on Berlin, and to the likelihood that new French elections would now be postponed from December to some time between January and March, 1956.

Mr. Allen Dulles then referred to the question asked by the Vice President at the previous meeting of the National Security Council, as to why, with much smaller resources than were made available by the U.S., the Soviet programs for assistance to underdeveloped countries seemed to make a more substantial impact on the governments and peoples of these countries than the larger U.S. programs. Mr. Dulles asked the President's permission to read his answer to the Vice President's question. He singled out the issue of the former colonial status of many of the underdeveloped countries as providing part of the explanation. Another part was the inferiority complex which many of these countries displayed in their dealings with the United States. Mr. Dulles then pointed out that the Communists were very astute in their approach to the governments of these backward states. They were careful to refrain from the use of such adjectives as "backward" and "underdeveloped". Moreover, they had more flexibility than the U.S. in their approach. They were not required to ask for a quid pro quo in return for their assistance. Nor were they hampered by legislation such as our Battle Act. [2] They were willing to accept almost any kind of repayment, including repayment in soft currencies, which they then used to develop their subversive program in the country in question.

Mr. Dulles also pointed out that large elements in the new world-wide Soviet program of assistance to underdeveloped countries consisted at this time of promises rather than of actual deliveries. Beyond this, in explanation of the Soviet success, Mr. Dulles said that the Soviet program took account of the special circumstances which existed in a particular underdeveloped country. The pattern of trade also played a role; for example, the Soviets appeared happy to help Burma dispose of its consistent rice surpluses. Finally, and perhaps most important, Mr. Dulles restated the thesis that many of these underdeveloped countries had been enormously impressed by what the Soviet Union had accomplished, virtually unaided, in developing its industrialization over a very brief period of time. Since this success was largely attributed to the Communist system, the governments of many underdeveloped countries drew the deduction that a Communist system would likewise prove most efficient in accomplishing their own industrialization. It was also plain that many of these countries believed that they could play off Soviet and U.S. assistance against one another.

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Prepared on November 22 by Gleason.

[2] Reference is to the Mutual Defense Assistance Control Act of 1951 (Public Law 213), sponsored by Congressman Laurie C. Battle of Alabama and enacted October 26, 1951. It provided for the suspension of U.S. economic aid to nations supplying strategic materials to Communist nations. For text, see 65 Stat. 644.

Mr. Dulles concluded his remarks on this subject by pointing out how difficult it was to impress on the states in question the dangers of Soviet penetration through the agency of alleged assistance programs.

Mr. Dulles concluded his intelligence briefing with remarks on the difficult situations confronting the governments of the ABC powers in Latin America.

The National Security Council: [3]

Noted and discussed an oral briefing on the subject by the Director of Central Intelligence, with specific reference to the situation in Berlin; developments in the French electoral situation; the Soviet assistance program to underdeveloped countries; new rail communications between the Soviet Union and Communist China; and the situations in Brazil, Argentina and Chile.

2. *Report by the Secretary of State*

[Here follows Dulles' report on the Geneva Conference, Germany and NATO, the Baghdad Pact meeting, and his visits to Spain, Italy, and Yugoslavia.]

Secretary Wilson said that he had a certain number of things to talk about, but he was not sure that this was the time to bring them up. Important budgetary decisions would have to be made in the next three weeks.

The President, in response to Secretary Wilson's statement, said that it would be well to bear in mind the old adage, "Be not the first by which the new is tried, nor yet the last to put the old aside." While, said the President, he could see a lot in what Secretary Wilson and Admiral Radford had said to him the last time they saw him in the hospital at Denver, he was still convinced that the Administration had the means at hand to make budgetary cuts in the Defense Department if we actually had the courage to go ahead and make these cuts. For example, continued the President, do we really need to have as much air and sea lift as we think we need to have in order to transport our forces rapidly to various trouble spots?

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[3] The paragraph that follows constitutes NSC Action No. 1479. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1955)

Secretary Wilson then said that what troubled him with respect to our national security policy, was the fact that we had taken on such a "lot of losers" as allies and clients—for example, Korea, Formosa, and Indochina. The Near East, in Secretary Wilson's opinion, was on the contrary an area of real value to the United States which some day might become self-supporting.

Secretary Hoover alluded to the fact that in a very few days the over-all ceiling figures for the foreign aid item in the FY 1957 budget must be determined. Would the President care to make any comments on the general level of our foreign assistance programs for FY 1957?

The President replied that he had one idea at least on this subject. When Mr. Hollister had finally figured out what he thought he really needed, he ought to ask for $500 million extra. Our foreign assistance programs were, in the President's opinion, "the cheapest insurance in the world". The want of a few million bucks had put the United States into a war in Korea. Accordingly, the President counselled that we keep a fund handy and available into which we could move rapidly if an emergency need arose. Mr. Hollister commented that he had been trying to achieve the President's objective by setting aside reserve funds in the present operations of his agency, and that he had been much criticized for so doing.

Director Hughes commented that the Administration might possibly get by with a much smaller budget for foreign aid if we could somehow achieve greater flexibility in the implementation of our foreign aid program.

Secretary Wilson observed that it was the view of the Joint Chiefs of Staff that a figure of $2.7 billion was going to be needed in FY 1957 if we were to maintain our military assistance program at approximately present levels. Indeed, it was the view of Admiral Radford that this was insufficient, and that we ought to go up to a figure of $3.4 billion. Secretary Wilson said that he himself was inclined to feel that a figure of $3 billion might perhaps be the best.

The President then called for last year's over-all figures, and when these had been supplied said that when the new figures were finally available they should be laid out on the table for discussion. Meanwhile he was extremely anxious to use up the backlog of funds available for foreign aid. It was such a big backlog.

[Here follows discussion of planned defense expenditures and the question of balancing the Federal budget.]

The Vice President then referred to the point earlier mentioned as to the need for flexibility in the execution of our foreign aid programs. He likewise pointed out the apparent flexibility of the similar Soviet programs, which had considerable impact although there was comparatively little money involved. Was there not, inquired the Vice President, a real possibility that as the Soviet program moved ahead the United States would be obliged to think in terms of a much larger foreign assistance program? While the concept of the balanced budget was fine, the Vice President wondered whether in actuality the State Department would not feel compelled to ask for larger expenditures in the field of foreign assistance.

In response, the President commented that gaining our objectives in this area was not always a matter of money. See what the Soviets had done with their shipment of arms to Egypt. While the President said he was ready to do anything sensible, he actually believed that we never emphasized sufficiently the contribution of our information service (USIA). The President believed that we could use a little more money for this activity much more effectively than we could use a lot more money on our foreign aid programs. And, asked the President, how about loans instead of grant aid? Amidst laughter, the Vice President pointed out that many of these loans hurt Secretary Humphrey just as much as grants.

At this point, Secretary Wilson raised again the problem that he had outlined at the previous meeting of the National Security Council—namely, the socializing process which we build up in foreign countries as a result of conferring our aid on the governments of the countries which were its recipients. Agreeing heartily with Secretary Wilson, Secretary Humphrey said that the Russians had not done 10% as much socializing in the world as the United States. Secretary Wilson added that this was, in his opinion, a very serious problem, and that our assistance conferred on governments rather than on individuals in foreign countries might ultimately prove to be self-defeating.

Secretary Dulles broke in on this phase of the discussion to say that he believed that there was merit in the point that the Vice President had made with respect to the likelihood of a need to increase the size of our foreign aid programs. The scene of the battle between the free world and the Communist world was shifting. The United States and the free world must be prepared henceforth to meet much more serious Soviet economic competition. On the other hand, we cannot let ourselves be placed in a position where we can be "busted" by being obliged to meet and cap every Soviet offer of assistance all over the world. Being obliged to equal or exceed each Soviet popularity bid would be hopeless for the United States.

The President, referring to Secretary Wilson's concern over the socializing role of U.S. aid and assistance to foreign countries, said he felt compelled to point out that the fact that certain countries—such as Denmark, Norway and Sweden—were far more socialized than the U.S. (and, said the President, smiling, there's a degree of socialization here also), did not mean that these countries were inimical to the United States. They were, indeed, among our best friends. Continuing, the President said the fact of the matter was that every foreign country could develop a government which, while more socialized than we might like, nevertheless succeeded in avoiding dictatorship and totalitarian methods. This was not necessarily a drawback from the U.S. point of view. Accordingly, the President indicated that he was not inclined to think that Secretary Wilson's point was of critical importance to our policies at this time.

Secretary Humphrey said that what we ought to try to do was to stimulate private industry in those countries which were recipients of U.S. military and economic assistance. Admittedly, however, this was a very difficult course of action. At this point, Mr. Anderson reminded the Council that the whole subject of United States military assistance world-wide was scheduled for consideration by the National Security Council at the meeting to be held on December 8. The Vice President observed that when this subject was reported on to the National Security Council, he hoped that those making the presentation, and especially Mr. Hollister, could provide some idea of the balance between what the Soviets are doing in the field of foreign assistance compared to what the United States is doing. Such comparisons, directed to certain key countries, would be much more useful than the usual rundown on the status of our aid programs.

The National Security Council: [4]

a. Noted and discussed an oral report by the Secretary of State on:

(1) Aspects relating to the Foreign Ministers Conference of special interest to the National Security Council, with particular reference to Soviet actions at the Conference and the German situation.
(2) His trips to Spain, Italy, and Yugoslavia.
(3) His analysis of the Near Eastern situation.

b. Noted the President's expressed conviction that European integration, with West Germany playing a part, would be a major contribution to world peace; that a unified Europe (achieved by strengthening and expanding into other areas the concepts of NATO, the Brussels Pact, and the Coal and Steel Community) would constitute a focus of power, in addition to the U.S. and USSR, which would greatly advance the material and moral well-being of European peoples and the security interests of the United States; that encouragement of this concept in speeches by Council participants would be an appropriate way of seeking the objective of European integration.

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[4] Paragraphs a–c that follow constitute NSC Action No. 1480. (*Ibid.*)

c. Discussed the general problems in the development of Fiscal Year 1957 programs for military assistance, economic aid, foreign information, and U.S. military forces; and agreed to continue discussion of these programs at Council meetings scheduled for December 8 and 12.

Note: The action in b above subsequently circulated to all Council participants.

S. Everett Gleason

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10. Draft Memorandum Prepared for the National Security Council [1]

Washington, November 28, 1955.

SUBJECT

Review of the Military Assistance Program

Pursuant to NSC 5434/1, the Planning Board has reviewed the status reports relating to the military assistance programs submitted by the Department of Defense and by the International Cooperation Administration for the period ending June 30, 1955.

The following characteristics of military assistance and supporting aid programs are noted:

(a) The rendering of military aid, based on a decision to build indigenous forces in a given country, generates in most cases further requirements in the form of Direct Forces Support and Defense Support aid.

(b) A large part of the military assistance provided by the United States has been in direct response to pressures exerted by the Soviet Bloc in particular areas. For example, whether it be in Berlin,

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[1] Source: Department of State, S/P–NSC Files: Lot 61 D 167, MSP Procedure for Periodic Review. Top Secret. Prepared by the NSC Staff for consideration by the NSC in conjunction with the Review of Military Assistance and Supporting Programs enclosed with Lay's memorandum, *infra*.

Korea, the Formosa straits or Indochina, the furnishing of military aid by the United States has been in good part, our reaction to decisions which have been made by the Communist Bloc.

(c) Once we have begun to furnish grant aid to a particular country, there is a tendency for it to continue—sometimes despite changed circumstances. This has been true in the past and appears likely to continue into the foreseeable future. This seems due to the following: (1) the initial grant was required because the recipient country's economy could not support the military capability we had planned for it; still these economic deficiencies are generally not likely to be overcome for many years to come, if ever; (2) once we start rendering aid to a country, it becomes accustomed to it and expects aid in equal, or perhaps greater, amounts; (3) the threat of local aggression or other pressures which caused us to begin an aid program never completely disappear.

(d) As a result, the required responses to Soviet bloc pressures in one area after another are cumulative; and attempts to achieve our objectives in all these areas would involve expending our resources in foreign aid programs at an ever increasing rate towards an ultimate total which would be without limit.

(e) It is basically more expensive for the United States to render foreign aid than for the Soviet Union. Because of the nature of our economy and the fact that we are a creditor nation we are compelled for the most part to render grant aid; the Soviets, on the other hand, are in a position to trade and to accept goods in return for armaments and other products furnished. They are also willing to make large, long-term loans at low interest rates and payable in local currencies with which we have hitherto not been willing to compete.

(f) As a result, Soviet aid is ostensibly presented as a commercial trading proposition without strings, whereas U.S. aid is for the most part grants with political commitments; the attitude of the recipients towards the U.S. and towards the Soviet varies accordingly.

(g) Foreign aid recipients expect more from the U.S. than from the Soviets. Thus Soviet aid, or even promises of aid, are heralded with far greater welcome than are U.S. grants many times the size. Moreover, in areas where the U.S. has granted less than was expected or has slowed down or stretched out deliveries, we are put in the position of qualifying our promises at the same time the Soviets are making new ones.

During FY 1955 we spent on the order of $43 billion for national security programs. These expenditures were divided into the following rough order of magnitude:

Military programs	$36 billion
Foreign aid	4
AEC	2
Civil defense, stockpiling and other programs	1
	$43

If it is assumed that so far expenditures in FY 1956 and future years will not substantially exceed the above total, and if it is also assumed that incursions are not to be made into the present level of expenditures for other national security programs, then foreign aid must be financed on an annual basis of somewhere in the neighborhood of $4 billion.

Recent Soviet moves and other developments suggest that the U.S. must consider embarking upon a substantially greater program of grant aid in the Middle East (military or economic), possibly amounting on an annual basis to some $.5 billion. This may mean that present programs in other areas should be carefully reexamined to see whether we are receiving a proper return on our investment and whether the present priorities continue to have validity.

At the present time, the principal recipients of our foreign aid funds and the order of magnitude of the grant aid they are receiving are as follows (in billions of dollars):

	FY 1957 Programs	FY 1955 Expenditures
NATO (ex Turkey)	1.3	1.7
Korea	1.0	.2[2]
Indochina[3]	.4	.8
Turkey	.4	.2
Formosa	.3	.4
Pakistan	.3	[4]
Spain	.1	.1
Japan	.1	.1[2]
Iran	.1	.1
Yugoslavia	.1	.2
India	.1	.1
All Other	1.0	.2
Total	5.2	4.1[2]

Note on Sources: The FY 57 figures were obtained from the tentative ICA budgetary request figures, and from the latest tentative estimates developed by DoD in connection with their budget request. FY 55 figures are from Defense and ICA contributions to NSC 5525, Part 2.

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[2] Understatement of grant aid given, since Direct Forces Support program financed by non-Mutual Security appropriations of the Department of Defense is not included. [Footnote in the source text.]

[3] Includes South Vietnam, Laos, and Cambodia. [Footnote in the source text.]

[4] Less than $50 million. [Footnote in the source text.]

With the exception of Yugoslavia, where the present program is currently under review, none of the country programs above listed is presently under NSC study. It therefore seems likely that expenditures of the order indicated above will continue at approximately the present rates and with approximately the above relationship of one country's program to another's over the foreseeable future. This means that to the extent the existing order of priority continues, foreign aid may not be available for for other areas, such as the Middle East, where it may be more urgently needed. It also means that under existing policies, dollar demands of these proportions will be a fixed charge over the years to come, comparable in its recurrence to the annual requirements for interest to service the national debt.

There are, obviously, very different military, political and economic factors which apply in NATO and each of the separate countries listed above which, together, are absorbing something on the order of 90% of our foreign aid dollars. In Iran, for example, the size of the planned armed forces is based in part upon the prestige factor and our policy of support to the present regime; the same is to some degree true in Pakistan; in Korea, the force levels have a more militarily immediate purpose by way of deterrence. However, there is one policy issue which is a common denominator applicable to each country:

To what extent should the United States continue to sustain force levels, over and above those necessary to preserve internal security, when (1) even present Planning Force Bases "do not represent total military requirements";[5] (2) when the forces are of such size as to constitute a drain on the local country's resources which its economy cannot support now or in the foreseeable future; and (3) when such forces can only exist now and in the foreseeable future through subsidies by the United States at an annual cost of from $100 million to $800 million per country?

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[5] See NSC 5525, Part 2, Annex 2, Page 1. (Defense Status Report) [Footnote in the source text.]

11. Memorandum From the Executive Secretary of the National Security Council (Lay) to Members of the Council[1]

Washington, November 29, 1955.

SUBJECT

Review of Military Assistance and Supporting Programs

REFERENCES

A. NSC 5434/1
B. NSC 5525, part 2

The enclosed draft NSC action on the subject, prepared by the NSC Planning Board after review of U.S. military assistance and supporting programs pursuant to NSC 5434/1, is transmitted herewith for consideration by the National Security Council at its meeting on Thursday, December 8, 1955.[2]

Also enclosed for the information of the Council is an Annex showing foreign aid and other national security expenditures in FY 1955 and 1956 and the distribution of foreign grant aid in FY 1955.[3]

James S. Lay, Jr.[4]

[Enclosure]

Review of Military Assistance and Supporting Programs

1. a. Note that a high proportion of U.S. military and economic assistance is received by Turkey, Iran, Pakistan, Vietnam, Formosa and Korea; and that in each of these countries the armed forces (1) "do not represent total military requirements,"[5] (2) cannot be supported by the local economy now or in the foreseeable future, and (3) require U.S. subsidies at an annual cost ranging from $100 million to $800 million to each of these countries.

b. Direct an appropriate group or agency to proceed urgently with a study of the assistance programs for these countries; and direct the NSC Planning Board, in the light of such study, to review the relevant NSC policies. It is understood that such study and review will not delay preparation and presentation of the FY 57 budget now in progress.[6]

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[1] Source: Department of State, S/P–NSC Files: Lot 61 D 167, MSP Procedure for Periodic Review. Top Secret.

[2] See Document 13.

[3] Not printed.

[4] Printed from a copy that bears this typed signature.

[5] See NSC 5525, Part 2, Annex 2, page 1. [Footnote in the source text.]

Majority Proposal	*Budget–Treasury Proposal*
2. Agree that in the interest of greater flexibility the Congress should be requested to make available to the President, in addition to the specific appropriation for military and economic assistance, a fund of the order of several hundred million dollars which may be used, in his discretion: a. For unforeseen and essential military assistance needs arising from changes in the international situation. b. For economic assistance for development and related purposes wherever new or expanded programs appear in the U.S. interest.	2. Agree that, in order to provide flexibility to meet unexpected developments or take advantage of future circumstances, a substantial portion of the total FY 1957 foreign aid program should be in the form of a contingency fund.

3. Agree that in present circumstances, it may be desirable to seek greater latitude in the granting of military and economic assistance than is permitted by existing statutory requirements relating to commitments or policies of the recipient countries; and accordingly request the departments and agencies concerned, without delaying preparation and presentation of the FY 57 budget, to study existing restrictions applicable to their respective programs and advise the Council of the results of such study.

4. Request the responsible Departments and Agencies to devise programming, clearance and allocation-of-funds techniques for military assistance programs aimed at reducing the time span involved between the initiation of a new fiscal year programming and the clearance for delivery of the first items to be shipped.

5. Recognize that the nature, scope and objectives of U.S. economic aid are matters requiring urgent review, particularly in the context of current Soviet moves in the economic field in the underdeveloped areas; request the International Development Advisory Board, chaired by Eric Johnston, to review U.S. economic aid pro-

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[6] JCS Adviser proposes deletion of para. 1. [Footnote in the source text.]

grams and to report to the Council through the Director, ICA, on the level and types of economic assistance required in the underdeveloped areas in order best to achieve the long-range objectives of the United States.

[Here follow sections entitled "General Questions," "Questions Relating to Particular Countries and Areas," "Organizational Questions," and the annex, "Foreign Aid and Other National Security Expenditures."]

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12. Terms of Reference for the Interdepartmental Committee on Certain U.S. Aid Programs [1]

Washington, December 2, 1955.

1. The Committee shall consist of the Deputy Under Secretary of State for Economic Affairs (Chairman), the Assistant Secretary of Defense for International Security Affairs, Assistant Secretary of the Treasury, and Deputy Director of ICA for Program and Planning. The Chairman may invite the Bureau of the Budget to participate as an observer.

2. The Committee shall examine special country situations [2] where U.S.-supported military programs might impose undue burdens upon the economy of the country.

3. In such situations the Committee shall initiate and develop analyses of military and economic programs, including:

(a) the extent, origin and status of U.S. commitments;

(b) objectives, missions, assumptions, feasibility, costs and justification for planned force levels;

(c) long-range implications of developing and maintaining planned force levels in the light of the capability of the country to sustain them on a continuing basis consistent with economic objectives;

(d) relationship of the U.S. military and economic aid programs to over-all political, economic, and military considerations.

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[1] Source: Eisenhower Library, Project Clean Up, Military and Economic Aid. Confidential. No drafting information is given on the source text.

[2] For example:
Korea
Formosa
Turkey
Pakistan
Iran
Japan
Vietnam
Laos
Cambodia
Thailand
Spain
Philippines
[Footnote in the source text.]

4. In special cases, where urgent action is required, the Committee shall develop and recommend revisions in current aid programs within existing policy.

5. The Committee shall avoid, as far as possible, duplication of effort in its work. It may call upon the Central Intelligence Agency to supply intelligence advice, and, through the Defense member, upon the Joint Chiefs of Staff for military advice. It may call upon existing departmental and interdepartmental country working groups for staff studies, and may also request further special staff or field studies where necessary.

6. This assignment does not alter present agency responsibilities for the determination and operation of current programs.

John Foster Dulles *Secretary of State*	**C.E. Wilson** *Secretary of Defense*
G.M. Humphrey *Secretary of the Treasury*	**John B. Hollister** *Director, International Cooperation Administration*

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13. Memorandum of Discussion at the 269th Meeting of the National Security Council, Camp David, Maryland, December 8, 1955 [1]

[Here follow a paragraph listing the participants at the meeting and item 1.]

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Prepared on December 9 by Gleason.

2. Review of Military Assistance and Supporting Programs (NSC 5525, Part 2;[2] NSC 5434/1; Memos for NSC from Executive Secretary, same subject, dated November 29[3] and December 7, 1955;[4] NSC Action No. 1290–d; NSC 5517/1;[5] Memo for NSC from Executive Secretary, subject: "Constabulary Forces in Countries Threatened by Subversion", dated November 28, 1955[6])

Mr. Dillon Anderson briefed the Council on the reference item, and called attention to two large charts. The first of these was entitled "Priorities Relative to Pre-D-Day Allocation of Military Equipment". The second was entitled "Foreign Aid and Other National Security Expenditures with Breakdown as to Countries".

Thereafter Mr. Anderson introduced Mr. John Hollister, Director of the International Cooperation Administration in the Department of State. He said that Mr. Hollister had a few introductory remarks to make on the over-all mutual security program.

In his introductory remarks Mr. Hollister covered the following matters with the assistance of charts: First, trend of mutual security appropriations in billions of dollars from 1952 through 1957; second, trend of mutual security expenditures for the same period of years; third, mutual security programs by functions, which provided definitions of the different types of U.S. assistance; and fourth, mutual security programs by functions, which provided the relative size of the different assistance programs for FY 1956 and FY 1957.

Following Mr. Hollister's introductory remarks, Assistant Secretary of Defense Gordon Gray introduced the presentation of the Department of Defense on the status of the military assistance program. He pointed out that the information to be given by those who followed him would not stop as of June 30, 1955, as in the written status report, but would go down to the end of August. Secretary Gray then introduced Mr. E. Perkins McGuire of the Department of Defense, who, with the assistance of charts, covered the following topics: First, MDAP participants; second, major MDAP items delivered since the beginning of the MDAP program; third, allied and Communist forces, indicating the destination of major items delivered to allied forces by the U.S.; fourth, NATO forces,

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[2] Document 6.

[3] Document 11.

[4] Not printed. The memorandum transmitted two memoranda to the Secretary of Defense from Admiral Radford, dated December 6, concerning military assistance, supporting programs, and constabulary forces in countries threatened by subversion. (Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5525 Series)

[5] NSC 5517/1, "Priorities Relative to Pre-D-Day Allocation of Military Equipment," July 13, 1955, approved by the President, August 11, is *ibid.*

[6] The memorandum of November 28 has not been found in Department of State files. It transmitted to the NSC an OCB report of November 23, entitled "Report to the National Security Council Pursuant to NSC Action 1290–d."

1950 and 1955, being a comparison of the strength of NATO forces in these two years; fifth, a recapitulation of FY 1955–56 MDAP funds; and sixth, the FY 1957 budget request for military assistance programs.

Mr. McGuire in turn introduced Brigadier General James K. Wilson, who indicated that he would discuss MDAP deliveries and programs for the entire period FY 1950 down to the program now being carried out. This, he said, he would do in three parts. The first part concerned the period FY 1950 to 1955. This included comment on the world-wide programs and results for the Fiscal Years 1950 to 1955 together with area programs and results for the Fiscal Years 1950–55.

As the second of the three parts of his presentation, General Wilson discussed the FY 1956 military assistance program, which he pointed out was only now ready for final review and implementation. He explained the difficulties by referring to charts indicating the lead times and the screening process through which military assistance programs slowly progressed.

The third part of General Wilson's presentation was devoted to a discussion of the development of the FY 1957 program. This process, said General Wilson, had started in March 1955 and would not be completed until Congress finally appropriated the necessary funds some time between May and August 1956. It was estimated that if one added up all the requirements necessary to achieve the objectives of the military assistance program, the cost would be in the neighborhood of $6.7 billion. In point of fact this latter estimate had already been refined down to a budget request figure of about $3 billion.

In conclusion, General Wilson dealt briefly with each of the three major problems which the military assistance programs presented to the United States—namely, (1) lead times, (2) policy vs. funds, and (3) flexibility. At the conclusion of General Wilson's remarks, Secretary Wilson said that it was perfectly clear to him that we were not going at this problem in the right way. We were getting involved in a lot of trouble as a result of requests from the field for programs of military assistance at least twice as large as we were going to attempt to carry out. These programs outlined in the field must henceforth be more accurately tailored to what is available in the United States to finance them.

Mr. Dillon Anderson then called on Mr. Hollister for the presentation by the International Cooperation Administration of the ICA program of non-military assistance to friendly foreign nations. Mr. Hollister stated that the presentation on these programs would be given by Mr. John B. Ohly of the ICA. Again with the use of charts, Mr. Ohly covered first the subject of ICA programs by area, including FY 1956 appropriations and the FY 1957 proposed program. His second topic covered non-military programs by area. This, said Mr. Ohly, was designed to illustrate trends in these programs. The subject covered all obligations through 1955, the program for FY 1956, and the program proposed for FY 1957. Thirdly, Mr. Ohly covered what he described as the high-cost programs for FY 1957. He explained that six countries—namely, Korea, Indochina, Turkey, Taiwan, France and Pakistan—accounted for something over 50% of the total assistance costs undergone by the U.S. assistance programs.

Thereafter Mr. Ohly said that he would like to analyze the programs in some detail for two or three significant countries, to illustrate how programs were developed to accomplish U.S. objectives. Mr. Ohly first described Korea, which he said was in a sense the most difficult case, thanks to a combination of many problems. Nevertheless, Korea was like these other countries in that the programs there indicated that the United States was making no progress whatsoever in getting the load off its own back and directing Korea in the path of future stability and self-support.

Mr. Ohly said he would next turn to a quite different type of problem, illustrated by India. For that country we were proposing in FY 1957 a total program involving about $81 million, of which approximately $10 million would be for technical assistance; the remaining $70 million of developmental assistance was designed to help carry through India's second five-year plan. The big problem for India, explained Mr. Ohly, was the tremendous foreign exchange gap between the $1 billion of foreign exchange available to India and the several additional billions which would be required to complete successfully this second five-year plan. The purpose of our program was to help bridge the gap.

At the conclusion of Mr. Ohly's presentation, the President said he had a question to address to Mr. Hollister with respect to India. Did Mr. Hollister think that the United States should, for its own good, spend more than the proposed $71 million for economic assistance to India? Mr. Hollister replied that he did not think so, although he said there were two schools of thought on this issue within the Administration. The President said that he felt that it was clearly to the security advantage of the United States to have certain important countries like India strong enough to remain neutral or at least "neutral on our side". For one thing, such neutral countries were less exposed to attack by the Communists. Secretary Dulles pointed out that had Korea been stated to be a U.S. ally, it was very unlikely that Korea would have been overtly attacked by the Communists.

Mr. Hollister then said that he would like to make a few general observations with respect to the assistance programs for which the

ICA was responsible. It seemed obvious, said Mr. Hollister, that the United States cannot do more by way of extending assistance than we have money available for that purpose. The prime problem, therefore, was the problem of priority. Military and economic assistance programs were closely intertwined and interdependent, but the entire resulting program was of enormous magnitude. The U.S. Ambassadors in particular foreign countries, not to mention the local authorities in these countries, were all pushing as hard as they could to get the assistance programs for these countries carried through to their conclusions. In point of fact, however, there was simply not enough money available to carry out all these programs. The problem remained of what we should spend and how much assistance we can afford to give.

Among the special problems he wished to single out, Mr. Hollister mentioned the problem of providing economic and budgetary support to countries which were unable with their own resources to maintain military establishments at the required levels. Such economic support programs were of course necessary. We cannot forever stay on the defensive, and this economic aid helped us to take the offensive in various countries so that they could make progress in the direction of the goal of standing on their own financial feet. In many countries, however—notably in Korea—it required all the money that the United States could pour in by way of assistance, simply to enable Korea to stand still and not recede into worse economic difficulties. Accordingly, Mr. Hollister again stressed the need for a study of the type of problem illustrated by Korea. In such countries we had no option but to reduce our sights or else to increase our expenditures if such countries were ever to be in a position to stand on their own feet.

Mr. Hollister then said that there was also need of an over-all study of where the United States was going in the field of assistance to the underdeveloped countries of the free world. If their problems were to be met successfully, a very different solution would have to be sought than the solution in Europe achieved by the Marshall Plan. Marshall Plan aid would simply not work in the underdeveloped areas of the world as it had worked in highly industrialized Western Europe. Accordingly, a different approach must be studied, and this approach was made the more urgent because of the recent Russian maneuvers in the field of economic and technical assistance in the Near East and South Asia. Many people were saying that what we needed were new and dynamic programs for these underdeveloped areas. With this view Mr. Hollister said he had complete sympathy, but what kind of programs were actually envisaged? Of one thing he was certain: We could not meet the needs of the underdeveloped areas by simply spending lavishly.

Finally, Mr. Hollister said that he was also in agreement with those who stressed the importance of greater flexibility in the management of our foreign assistance programs and on the desirability of larger contingency funds to meet emergencies which might occur in countries which we were assisting. It was a real question, however, whether Congress could be induced to agree to place more of the funds it appropriated for foreign assistance in the category of contingency funds. Moreover, the countries who were beneficiaries of our assistance programs would not welcome a cut in the funds appropriated for the regular assistance program in order that larger sums could be reserved for unforeseen contingencies.

At the conclusion of Mr. Hollister's comments, Mr. Dillon Anderson said that the third portion of this review of military assistance and supporting programs would consist of a presentation by the Executive Officer of the Operations Coordinating Board, of the report on "Constabulary Forces in Countries Threatened by Subversion", prepared by the OCB pursuant to NSC Action No. 1290–d. Mr. Staats summarized the aforementioned report, and concluded with an estimate that it would cost approximately $15 million, in addition to the $50 million now being spent annually on the internal security aspects of the mutual security program, to carry out the objectives set forth in the report.

After Mr. Allen Dulles had spoken briefly on aspects of the internal security program for these foreign countries, . . . Mr. Dillon Anderson pointed out that the 1290–d study had been considered by the NSC Planning Board. Although the Planning Board had no comments to offer to the Council on the subject, it had taken into consideration this study when it had made its recommendations to the National Security Council on the over-all problem of our military assistance and supporting programs. He then called on Admiral Radford to give the views of the Joint Chiefs of Staff with respect to this study on constabulary forces.

Admiral Radford read from the memorandum which the Joint Chiefs had sent on December 6 to the Secretary of Defense,[7] giving their views as to the 1290–d study on constabulary forces in countries threatened by subversion. In general, said Admiral Radford, the Joint Chiefs of Staff were in strong agreement as to the desirability of professional police forces in such countries. They believed, however, that the present report conveyed the misleading impression that provision of such internal security and police forces offered a possibility of considerable savings in the military programs for the countries in question. On the contrary, the Joint Chiefs of

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[7] See footnote 4 above.

Staff believed that implementing the proposed program for police and constabulary forces would involve an additional expense.

The President commented that the fact of the matter was that three different parts of the Executive Branch were presently engaged in executing programs to help these threatened countries to maintain their internal security. These three were the Defense Department, . . . and the ICA. In the light of this situation, the National Security Council had every right to know how effectively these departments were doing the job. The report presented by the OCB did not contain any recommendations on which the NSC was obliged to act, and accordingly the President could perceive no reason why the Joint Chiefs of Staff should have become so excited about it.

Admiral Radford pointed out that the Joint Chiefs would not have been excited had they been aware that no action on this report was contemplated by the Council. Meanwhile, the President went on to express his growing conviction that in many parts of the free world all that the United States could possibly hope to do militarily was to build up strong and stable governments in nations who would be neutral and accordingly on our side. Admiral Radford replied that the great fear of the Joint Chiefs of Staff was that these programs to build up internal security and stability might appear to provide a basis for effecting savings on the military programs designed to prevent these countries from falling victim to outside aggression as opposed to internal subversion.

The President went on to state his firm belief that the provisions in many of our treaties with other countries, to the effect that an attack on one constituted an attack on all, were wise provisions. Nevertheless, we should do everything we can to assist these countries to reach a position where they can help themselves, especially by building up strong internal political and economic stability. The President said that he had in mind the spectacle . . . .

Mr. Dillon Anderson pointed out that it was thanks to such considerations as the President had emphasized that the OCB report merely called for noting by the National Security Council. Secretary Dulles asked Mr. Anderson whether he was to deduce from this last remark that the study was to be treated as if it were merely academic. For one thing, said Secretary Dulles, there was no clear delineation of responsibility for carrying out programs designed to enhance the internal security of these states threatened by Communist subversion. At the present time such responsibility was divided among a number of different agencies. Secretary Dulles expressed the hope that the Council might at least issue a directive assigning this responsibility to one man or one agency. The President replied that he did not believe that any action by the National Security

Council was necessary to assign such responsibility. Mr. Dillon Anderson suggested that the Operations Coordinating Board itself was the obvious agency to coordinate this program. After all, it was the OCB which had made the study.

Mr. Staats said he appreciated the problem which Secretary Dulles had emphasized, and said that the OCB had tried to approach the problem by spelling out in its report the agency or agencies who were responsible for action on this program in each of the 18 countries. He said he also believed that over-all leadership in carrying out this program should be assigned to Mr. Hollister. Mr. Hollister added that a special office had been set up already in the International Cooperation Administration for the precise purpose of providing this over-all leadership.

Governor Stassen expressed the opinion that the NSC might at least contemplate doing more than merely noting the completion of the OCB report on constabulary forces. Might not the NSC also indicate its anticipation that the programs analyzed in this report would be effectively carried out? In reply to Governor Stassen, the President said that when he had originally requested the OCB to make this report, all that he had in mind was need for information on the subject of constabulary and police forces. He had not intended to agree or to disagree with the findings of the report. Responsible agencies exist whose job it was to carry out this program. He accordingly could perceive no need for further action along this line by the National Security Council. Governor Stassen, however, returned to his point and said that in view of the fact that the struggle between the free world and the Communist world was likely to be fought in the future in the area of internal subversion rather than in that of overt aggression, it was more important than ever to pay attention to the problems raised by the OCB report. This might mean that we would proceed to cut down the military force goals which we had set up for countries like Korea, and substitute for them new guidelines more in keeping with the character of the struggle which we were likely to face. The President replied that Governor Stassen's point was part of a much larger problem. To this Governor Stassen answered that there was an obvious need to indicate clearly that we are shifting to a new form of the long struggle against Communist totalitarianism. The President said that on this point, at least, he couldn't agree more. Mr. Dillon Anderson said that the recommendations of the Planning Board on the general subject of military assistance certainly touched on the matter which Governor Stassen had emphasized.

Secretary Dulles indicated that he wished to be heard on this subject. He pointed out that the National Security Council had in this report a study which was very thorough, very important, and very enlightening in character. He would therefore like to hope that the Council would not treat the report on constabulary forces as a mere matter of academic interest, but that the result of the Council's consideration of the report would at least be a greater concentration of effort to achieve a higher degree of internal security in countries exposed to subversion. In short, he hoped that this report would not result in the program becoming a step-child. Secretary Dulles explained that he was not calling for any specific NSC endorsement of the OCB report, but at least some expression of the necessity that some one individual or agency be charged with responsibility for carrying out this program. After Mr. Staats had pointed out again that in each country covered by the study, recommendations had been made by the OCB report as to what agency or agencies should be responsible for carrying out the program in that country, Secretary Dulles said that he would be satisfied if the International Cooperation Agency were clearly charged with over-all coordination of this program. Mr. Allen Dulles said he thought it would be eminently sensible to have Mr. Hollister act as general coordinator of this program.

The President said that this proposal was perfectly agreeable to him; but after all, in the military circles in which he had spent so much of his life, it was normal to expect that after a report was made there were people on hand who were expected to carry out its recommendations. That was the kind of staff work that the President said he had been used to. If the expected action did not occur, some officer or officers found themselves reduced a grade or two.

Mr. Anderson then stated that he thought the point had been reached in the Council's discussion of the general problem of military assistance and supporting programs, for it to take action on the recommendations of the NSC Planning Board. He accordingly read the first recommendation, which noted the high proportion of U.S. assistance being received by Turkey, Iran, Pakistan, Vietnam, Formosa and Korea, and which suggested that an appropriate group or agency proceed with an urgent study of the assistance programs for these six countries. Thereafter the Planning Board would be directed to review the NSC policies relating to these countries. After he had read these recommendations, Mr. Anderson described the make-up of a new interdepartmental group [8] which was in a position to make the studies called for and which Mr. Anderson recommended to the Council should be designated to make the studies. Mr. Anderson then read to the Council the terms of reference of this new interdepartmental committee.[9]

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[8] The Interdepartmental Committee on Certain U.S. Aid Programs under the chairmanship of Deputy Under Secretary of State Prochnow.

The President then asked Mr. Anderson how long the new interdepartmental committee had been meeting. Mr. Anderson replied that the committee had been set up in the first instance last July or August to study the financial situation in Turkey. The President then expressed his approval of the interdepartmental committee, but said he wished to emphasize the need for recognizing that the character of the struggle between the U.S. and the USSR was clearly changing. Accordingly the philosophy behind some of the earlier courses of action in this struggle was likewise changing. The Republic of Korea might constitute an example of what he meant, said the President. In any case, the United States must keep abreast of the changing circumstances in which the struggle against Communism was being conducted. Whether or not we needed studies of these six countries was open to question. It might be better if the National Security Council itself should sit down and talk over these countries. In any event, the guidelines must issue from what the National Security Council thought about the changing situation now represented by the new Russian tactics. After further explanation by Mr. Anderson, the President stated that he had no objection to the proposed interdepartmental committee making its studies, provided there was clear realization of the change in tactics that has overtaken us.

Secretary Dulles said he believed that the studies proposed in the Planning Board recommendation ought to be made. It was important, however, that the interdepartmental committee approach its function with the highest policy considerations in mind. Soviet policy had shifted, as the President had pointed out, but the precise direction of the shift was not yet wholly clear. It is also necessary to realize why the Soviets have shifted, namely, because the free world has found military formulas which have compelled them to shift to less violent and militarily aggressive policies. It should also be borne in mind, however, that the Soviets are really not cutting down the size of their own military forces, and accordingly the United States must be careful not to lower its own military guard lest, after doing so, the Soviets should suddenly revert to their old tactics employing aggressive military force. It was quite possible, thought Secretary Dulles, that it was not necessary to maintain as many as 20 active divisions in the Army of the Republic of Korea. Nevertheless, we must be very careful not to assume that the only danger facing the free world is the danger of cold war.

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[9] *Supra.*

The President replied that of course he didn't want extremes, either the extreme of all military and no economic assistance for these countries, or all economic and no military. We should strike a mean and realize that we are playing this game of trying to outwit the Russians on something like a 40-year basis. Accordingly we could not always use the same tactics in trying to win the game. We must be ready to adjust to changes in the situation.

Secretary Dulles commented that the biggest single difficulty that the United States faced in administering its assistance programs was the unwillingness of many of these countries who were beneficiaries of these programs genuinely to rely on the deterrent power of the striking force of the United States. What they wanted were visible military forces on their own soil. We therefore had the problem of educating the peoples and governments of these countries as to the effectiveness of our deterrent force, and to convince them that this deterrent will work even if they have much smaller military forces of their own. This might well, for instance, apply to Korea. Secretary Dulles warned, however, that we could not hastily change the situation in Korea by urging a sudden reduction of the level of South Korean military forces to a point where they would be more nearly supported by the South Korean economy. Sudden action of this sort might well break the morale of South Korea. Secretary Dulles recalled the President's statement when the first American divisions were called back from South Korea. It had been a fine statement, but it had been very hard "to sell to the Koreans".

Secretary Wilson counselled building up more reserve divisions in South Korea and reducing the number of active divisions. He cited figures which indicated that the United States was putting into the South Korean economy each year a sum equivalent to the Gross National Product of South Korea. No wonder, he said, there was a 25% inflation in South Korea. We must take a look at this situation, especially in view of the new Russian economic challenge.

The President pointed out that the Russian challenge was not a genuine challenge, inasmuch as it was not the real intention of the Russians to assist the economies of the countries they professed to aid. Nevertheless, it was a very difficult job to meet the new Russian tactics—almost as hard, said the President, as it had earlier been to meet the military challenge.

Mr. Anderson then referred to the views of the Joint Chiefs of Staff in opposition to the recommendations of the Planning Board for a study of the assistance programs in these six countries, but suggested, in view of the hour, that the Council adjourn for lunch and begin its afternoon session with a statement by Admiral Radford of the views of the Joint Chiefs of Staff. This proposal was accepted.

When the National Security Council reconvened at 1:45, Admiral Radford was asked to give the views of the Joint Chiefs of Staff on paragraph 1 of the Planning Board recommendations. Admiral Radford stated that the Joint Chiefs of Staff had had but limited time in which to prepare comment on these recommendations, and that they had not actually been discussed by the Joint Chiefs of Staff. The Chiefs felt, however, that while the studies called for in the Planning Board recommendation might provide certain interesting-information, the real difficulty with our military assistance programs emerged from the fact that the level of military forces maintained in these countries derived directly from national security policies of the United States vis-à-vis these countries. Accordingly, the Chiefs recommended against singling out these six countries for special studies.

Admiral Radford then went on to give the Chiefs' views with respect to the second recommendation of the NSC Planning Board[10] on the subject of greater flexibility and, in particular, the use of a larger contingency fund as opposed to specific appropriations for military and economic assistance. Noting that there was a split in the Planning Board recommendation between the majority proposal, which called for an additive contingency fund of several hundred million dollars, and the proposal of the Budget and Treasury, which would simply earmark a certain proportion of the total funds appropriated by Congress for FY 1957 foreign aid programs, Admiral Radford said the Joint Chiefs of Staff favored the majority proposal with the additive contingency fund. The Chiefs did not believe it wise or feasible to reduce the size of the regular programs through the agency of larger contingency funds, as proposed by Budget and Treasury.

On the subject of the views of the Chiefs of Staff on the first recommendation, Mr. Anderson said that the Planning Board was well aware of the relation between national security policy and the level of forces in these six countries. It was for this very reason that the Planning Board had suggested that after the interdepartmental committee had studied the military and economic assistance programs in these six countries, the Planning Board should review the policies of the United States toward these countries in the light of the interdepartmental committee studies.

Admiral Radford pointed out that the great problem in countries such as Korea, Taiwan and Turkey, was the difficulty of persuading them that their national security could be adequately maintained even if we suggested cuts in force levels when we had initially insisted that these were the minimum levels which were required for the maintenance of security.

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[10] Reference is to Majority Proposal No. 2 in the Enclosure to Document 11.

Secretary Wilson said that while this was certainly a difficulty, it was essential to do something about the situation in these countries. He agreed with the Secretary of State that the deterrent power of the United States was the real shield for these countries, and he repeated his view that Korea should have 15 regular and 15 reserve divisions rather than the current 20 regular divisions and 10 reserve divisions.

Secretary Humphrey said that whatever the merits of the views of the Joint Chiefs of Staff, he was at a loss to understand why there could be any objection to a study of the military and economic assistance programs of the United States in these six countries. Admiral Radford replied by stating again the Chiefs' view that most of the information we needed about these programs and the ability of the economies of the six countries in question to maintain them, was already available. He also pointed out that we are reducing our strength in Korea while the enemy is building up his. The Koreans would tend to rely for their national security on such forces as they can actually see on hand and in the field.

The President commented that the real question was whether our national security policies vis-à-vis Korea and these other countries should be looked at once again. He said he believed a review of our policies was clearly in order every time we saw a significant change in the international scene. It was simply a matter of taking a new look, although the President said he must admit that he would hate to have the job of convincing Synghman Rhee [11] that he didn't really need 20 active divisions to protect his country.

Dr. Flemming inquired whether, if these studies should bring us to the conclusion that we cannot change our policy toward these six countries, the military and economic assistance funds we had asked for would prove to be adequate to carry out our existing national security policies. Or were we anticipating changes in policy and reductions in the level of military and economic assistance in calculating the FY 1957 budget requests.

Secretary Wilson replied to Dr. Flemming by stating that it was simply impossible to achieve our current military and economic assistance objectives with funds presently available. It had been a very tough squeeze this time, and we just couldn't do it. Accordingly, we must either make changes in our policy objectives or else go above the $36 billion level for the Defense Department budget for FY 1957.

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[11] President of the Republic of Korea.

Mr. Anderson said that he deduced from the character of the discussion that the National Security Council agreed with the Planning Board's first recommendation and authorized it to be carried out. The President said that was his idea.

Mr. Anderson then directed the Council's attention to the second recommendation of the NSC Planning Board, which called for greater flexibility in the provision of military and economic assistance by the United States to friendly countries. He explained the majority proposal, which called for a contingency fund of several hundred million dollars in addition to the specific appropriation for military and economic assistance, and also pointed out the view of the Budget and Treasury that no additive contingency fund should be sought from the Congress, but that, instead, a substantial portion of the total FY 1957 foreign aid funds should be earmarked to form a contingency fund.

Secretary Wilson expressed surprise that the issue of the size and form of the FY 1957 foreign aid program should have come before the National Security Council, inasmuch as he believed that he had already committed himself on this point prior to the meeting.

Secretary Humphrey inquired whether there was any reason in the world why we should not seek greater flexibility in our funding of all our programs. Was there any conceivable objection to greater flexibility? Admiral Radford replied by pointing out that those who were responsible for developing and executing the regular programs for military assistance over a period of years had to know precisely how much money was available to them for each program in each country. This knowledge for planning purposes would be denied to these people if the funds for the regular programs were cut down by the creation of large contingency funds. He predicted that to do so would get us into trouble with various friendly countries where we were carrying out military assistance programs on a basis of continuity.

Secretary Humphrey said he still favored the principle of flexibility, and we should not let ourselves be got into a vise with regard to these assistance programs if the Congress did not force us into a vise by specifying precisely how much could be spent in each country for each program. Admiral Radford said he feared we were already in a vise with respect to many of our programs. Secretary Wilson said our objective should be to keep down our new aid commitments to a very austere basis, and put enough money aside to permit real flexibility. Secretary Humphrey pronounced himself as strongly opposed to any additive contingency fund.

The President reminded the Council that of course they were not discussing the content of the FY 1957 budget. This matter had already been decided. Nevertheless, the President believed that Admiral Radford had emphasized a significant point, namely, that a large proportion of the costs of our military assistance programs in various countries derived from our obligation to provide maintenance and spare parts for equipment which had already been shipped to these countries. Naturally this situation got us into a box, and there would be inevitable inflexibility if the United States was bound to maintain the equipment earlier delivered under military assistance programs. This was why, when he had been Commander in Chief, he had urged the European nations to assume greater responsibility for maintenance and spare parts. This was likewise why he had consistently favored offshore procurement programs.

Secretary Gordon Gray interposed to remind the Council that in discussing the problem of maintenance it should remember that maintenance in the sense of keeping vehicles running was one kind of problem, but that program maintenance was a much larger thing. As for the contingency fund, Secretary Gray said that he strongly supported the views of the Joint Chiefs of Staff in favor of the additive proposal.

Dr. Flemming again inquired whether this discussion had any reference to the FY 1957 budget. He judged, from the wording of the Planning Board's recommendation, that it must have. Mr. Anderson, however, explained that the budget-making process had probably gone too far to permit the inclusion of an additive contingency fund at this time.

Director Hughes pointed out that ever since he had sat with the National Security Council he had clearly understood that you could not settle on the size and character of a budget if you concentrated your attention on one single item, such as foreign aid. This was especially true with regard to the FY 1957 budget.

The President thought that we should hang on to the existing $100 million provided in the budget for contingencies which might affect the military assistance programs. This was of particular value when the Congress was not in session. If, when it was in session, some unforeseen emergency arose, it was always possible to go to the Congress and ask for additional funds.

Dr. Flemming said that in that case it seemed to him that the principle behind this recommendation of the Planning Board had already been incorporated in the FY 1957 budget. The only remaining question was whether or not $100 million was enough to provide for contingencies affecting the military assistance program. The President said he believed it was enough.

Mr. Hollister advocated an attempt to induce Congress to provide larger discretionary funds at the same time that it cut down on the specific funds to be allotted to the regular assistance programs.

He admitted, however, that it would be hard to get Congress to provide very extensive discretionary funds.

The President said that in defense of the views of the Joint Chiefs of Staff on this subject, it should be realized that a military assistance program does not consist only of military matériel and munitions. Such programs have to allow for training and a lot of other things. The military units must be planned and activated on the spot so that they can be ready to use guns and equipment when they arrive. These foreign forces must know, accordingly, what they can expect from us and approximately when they can expect it. If we did not keep our promises we could get into trouble. Accordingly the President did not believe it was practical to follow Mr. Hollister's proposal of larger discretionary funds and smaller regular appropriations for the military assistance programs. It would be impossible to plan armies on such a basis.

Secretary Wilson said that he was greatly troubled by growing maintenance costs as against the need for having funds to provide new matériel and new weapons to our allies. He was also uneasy because the United States itself had too many men in uniform scattered in too many parts of the world. The Joint Chiefs of Staff recognize this as one of our main problems. The President agreed, and said that of course there was not really a modern weapon in NATO.

Mr. Anderson then asked the Council whether either the majority or the Budget–Treasury proposal on flexibility was acceptable to the National Security Council. The President replied by stating that the second recommendation should be revised and put in very general terms, namely, that the United States should seek maximum flexibility while at the same time recognizing the need for some degree of fixity in developing its military assistance programs.

Mr. Anderson then asked the Council to express an opinion on the third recommendation of the NSC Planning Board, as to the desirability of seeking greater latitude in the granting of military and economic assistance than was currently permitted by existing statutory requirements relating to commitments or policies of the recipient countries. The President replied that he thought everyone present would agree on this recommendation, but that they had all better start hiring their lobbyists to work on the Congress.

(At this point the Secretary of State, who was obliged to leave shortly to make a speech in Chicago, introduced the subject of export controls on trade with Communist China, discussion of which is covered under the next item.)

After discussion of the issue raised by the Secretary of State, the National Security Council resumed discussion of the fourth recommendation of the NSC Planning Board, with respect to the review of military assistance and supporting programs. The Council agreed to accept the fourth recommendation, which consisted of a request that the responsible departments and agencies devise programming, clearance, and allocations-of-funds techniques for military assistance programs aimed at reducing the time-span involved between the initiation of new fiscal year programming and clearance for delivery of the first items to be shipped.

Secretary Wilson commented that the Defense Department was engaged in doing this anyhow, but that no doubt it could be done more effectively.

Mr. Anderson then read the fifth and last recommendation of the NSC Planning Board, which called for a request on the International Development Advisory Board, chaired by Eric Johnston, to review U.S. economic aid programs and to report to the Council through the Director, ICA, on the level and types of economic assistance required in the underdeveloped areas in order best to achieve the long-range objectives of the United States.

Secretary Dulles immediately expressed doubt as to the desirability of Council approval of this recommendation. It seemed to him that the considerations which determined the level and character of our economic aid were matters of high policy involving classified information, and should not, therefore, be farmed out to an outside group which had no responsibility for administering this assistance. Secretary Dulles suggested instead that the study of U.S. assistance to underdeveloped areas be done by the staff of the International Cooperation Administration. If any outside assistance should be needed, the group headed by Mr. Johnston would be useful. The Board could be asked from time to time to give their views on certain specific problems. The Johnston group was advisory in character and not self-starting.

The President said that provided officials in the Government could find time to make such studies as were called for in this recommendation, they were best fitted to do so. But it was sometimes difficult for busy officials to take time out to make such long-range studies.

Secretary Humphrey and Mr. Hollister also expressed concern lest an outside study group come back with recommendations regarding long-range assistance to underdeveloped countries which would be completely out of line with existing U.S. policy and with available funds for such a program. It was particularly likely to be embarrassing if the results of such outside studies became public knowledge.

The President, however, said that we had had pretty good luck thus far with our outside groups, and that they had mostly kept the secrets which had been entrusted to them. On the other hand, the

President said he was willing to defer action on this recommendation, and that a decision could subsequently [be] made after discussion with the responsible agency heads. It would probably be OK for this Board to consult with Mr. Hollister as the Secretary of State had suggested.

Secretary Dulles commented that the great difficulty with such problems as long-range assistance to underdeveloped areas, was the necessity of solving them in the light of all the many considerations of policy. It was quite easy to solve them in isolation. Thus the problem of assistance to Afghanistan, while apparently economic, was really largely political in character. For the solution of such problems, Secretary Dulles said, he generally opposed outside groups and committees.

Secretary Wilson said that he agreed with the Secretary of State. We knew, said Secretary Wilson, more now than we know what to do about. (Laughter)

The President, addressing himself to Secretary Dulles, defended outside committees, and spoke very warmly of the services which the Randall Commission[12] had rendered to him and to the Administration. He again insisted that the real question was that of time available to overworked Government officials. Outside groups can often give the requisite time when responsible officials cannot do so. Secretary Humphrey said he believed that the Randall Commission report was largely window-dressing for an Administration policy already adopted. The President, on the other hand, credited the Randall Commission with actually setting forth a new policy in its area of study.

With respect to the problem of availability of time, Secretary Dulles pointed out that the setting up of a study by Eric Johnston's group would actually constitute a heavy drain on his time rather than saving it. The Secretary of State would have to spend a lot of hours educating the Board if he was to be sure that its final report would not be partial or incomplete.

The Vice President said that if the Director of the ICA could, in accordance with the usual practice, ask Mr. Johnston and the International Development Advisory Board to study certain specific problems and suggest any new ideas to the responsible departments or to the National Security Council, this might be a useful contribution.

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[12] The Commission on Foreign Economic Policy, composed of both private citizens and members of Congress under the chairmanship of Clarence Randall, was established by President Eisenhower in early 1953 to examine and make recommendations on international economic policy. The Commission presented its Report to the President and Congress in January 1954. Documentation on the Commission's work and its general impact on U.S. foreign policy is in *Foreign Relations*, 1952–1954, vol. I, Part 1, pp. 49 ff.

Mr. Hollister was then asked to list the membership of the International Development Advisory Board. When he had got part way through the list of its members, Secretary Humphrey interrupted to say that he had heard enough, and that he was still opposed to the use of this Board. The President observed that it looked to him as though those around the table did not wish to make direct use of the International Development Advisory Board as suggested by this recommendation, although of course Mr. Hollister was free to use this group in any manner he himself saw fit. Mr. Anderson commented that this seemed to complete Council consideration of this recommendation, and that there had been "no sale" on this one.[13]

The National Security Council:[14]

a. Noted and discussed the subject in the light of:

(1) A statement by the Director, International Cooperation Administration, on the over-all trends of the mutual security program for Fiscal Years 1952 through 1957.

(2) A presentation by the Department of Defense on the military assistance program.

(3) A presentation by the International Cooperation Administration on the ICA program.

b. Noted and discussed: (1) The report of the Operations Coordinating Board in response to NSC Action No. 1290–d, transmitted by the reference memorandum of November 28 and summarized at the meeting by the Executive Officer, OCB; and (2) the views of the Joint Chiefs of Staff thereon, transmitted by the reference memorandum of December 7.

c. Noted the President's statement that he expected each responsible department or agency to implement its program of U.S. assistance to free world countries vulnerable to Communist subversion in developing and improving the effectiveness of their internal security forces:

(1) Along the lines indicated in the OCB report pursuant to NSC Action No. 1290–d.

(2) In accordance with approved policies.

(3) Under over-all leadership to be assumed by the Director, International Cooperation Administration, pursuant to his re-

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[13] The International Development Advisory Board nevertheless submitted a report to President Eisenhower on March 4, 1957, entitled *A New Emphasis on Economic Development Abroad* (Washington, 1957). It focused on technical assistance and economic development rather than military aid.

[14] Paragraphs a–h that follow constitute NSC Action No. 1486. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1956)

sponsibility for the Mutual Security Program under Executive Order 10610, dated May 9, 1955.[15]

(4) In coordination with other responsible departments and agencies through the Operations Coordinating Board.

d. Discussed the recommendations of the NSC Planning Board on the subject, transmitted by the reference memorandum of November 29, in the light of the views of the Joint Chiefs of Staff thereon transmitted by the reference memorandum of December 7.

e. (1) Noted that a high proportion of U.S. military and economic assistance is received by Turkey, Iran, Pakistan, Vietnam, Formosa and Korea; and that in each of these countries the armed forces (a) do not represent total military requirements, (b) can not be supported by the local economy now or in the foreseeable future, and (c) require U.S. subsidies at an annual cost ranging from $100 million to $1 billion to each of these countries.

(2) Directed the existing State–Defense–Treasury–ICA interdepartmental committee to proceed urgently with studies of the assistance programs for the above-mentioned countries pursuant to its terms of reference set forth in the Annex hereto as read at the meeting, reporting the results of each such study to the National Security Council; and directed the NSC Planning Board, in the light of such studies, to review the relevant NSC policies. It was agreed that such studies and review should not delay preparation and presentation of the FY 1957 budget now in progress.

f. Agreed that maximum flexibility in the administration of the foreign assistance programs, through the use of contingency funds and otherwise, would best serve the security interests of the United States; bearing in mind the necessity for a reasonable measure of continuity in planning military assistance programs.

g. Agreed that in present circumstances, it may be desirable to seek greater latitude in the granting of military and economic assistance than is permitted by existing statutory requirements relating to commitments or policies of the recipient countries; and accordingly request the departments and agencies concerned, without delaying preparation and presentation of the FY 1957 legislative program, to study existing restrictions applicable to their respective programs and advise the Council of the results of such study.

h. Requested the responsible departments and agencies to devise programming, clearance and allocation-of-funds techniques for military assistance programs aimed at reducing the time span involved between the initiation of a new fiscal year programming and the clearance for delivery of the first items to be shipped.

Note: The above actions, as approved by the President, subsequently circulated for implementation by all responsible departments and agencies. The above specific actions referred for implementation as follows:

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[15] Executive Order 10610, "Administration of Mutual Security and Related Functions," May 9, 1955, is printed in 20 *Federal Register* 3179, and in Department of State *Bulletin*, May 30, 1955, p. 889.

c–(3): Director, International Cooperation Administration
c–(4): Operations Coordinating Board
e: State–Defense–Treasury–ICA Committee and NSC Planning Board.

[Here follow the Terms of Reference for the Interdepartmental Committee, Document 12 and item 3, "Multilateral Export Controls on Trade With Communist China". For text, see volume III, page 209.]

S. Everett Gleason

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14. Memorandum of Discussion at the 273d Meeting of the National Security Council, Washington, January 18, 1956 [1]

[Here follow a paragraph listing the participants at the meeting and items 1–2.]

3. Significant World Developments Affecting U.S. Security

[Here follows discussion of unrelated subjects.]

At this point in the discussion Secretary Dulles said he had some observations which could probably be made either at this point or in connection with the next item on the agenda; namely, U.S. Economic Assistance for Asia. The President suggested that Secretary Dulles state what he wished at this point.

Secretary Dulles said that the essence of his remarks would be to point out that the United States had very largely failed to appreciate the impact on the underdeveloped areas of the world of the phenomenon of Russia's rapid industrialization. This transformation of Russia from an agrarian to a modern industrial state was an historical event of absolutely first class importance. It challenged the industrial and political supremacy that up until now the West could maintain over the underdeveloped nations of the world. Now, however, these nations and especially those in Asia were being enormously impressed with the transformation which had been accomplished by the Soviet Union. The prestige of the "Great American Experiment" which had begun a hundred years ago was being diminished in the light of the "Great Russian Experiment" which had been achieved in some 30 years. Moreover, continued

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Prepared on January 19 by Gleason.

Secretary Dulles, these underdeveloped countries either forget or are indifferent to the terrible cruelties and hardships which have accompanied the transformation of the Russian state. All they see are the results of Russia's industrialization and all they want is for the Russians to show them how they too can achieve it. We can ill afford to ignore the enormous impact on Asians and other underdeveloped areas which the Russians have made. It constitutes a very serious problem which we are not adequately meeting at the present time although the assistance program which we are about to present to the Congress will certainly help. In conclusion of his statement, Secretary Dulles warned that if the United States failed to solve this problem, the Soviet Union would end by dominating all of Asia.

Secretary Humphrey said he thought he understood what Secretary Dulles meant. Nevertheless, he did not see how we can expect in the future anything but continued Soviet competition. Russia had very great natural resources. Much of it was in the Temperate Zone and the Russians were an industrious people. Inevitably, in the future, the Soviet Union will be a great competitor of the United States.

Secretary Dulles suggested that Secretary Humphrey was missing the point of his warning. The point was that the transformation of Russia had happened so rapidly and so dramatically that it had made an enormous impression upon the underdeveloped nations who sought an equally rapid change in their society.

Secretary Wilson went on to say that he was greatly worried because the industrial transformation of the Soviet Union had been the work of a totalitarian government. Ours, on the other hand, was the product of private and free enterprise. Secretary Humphrey said that we should not, accordingly, by virtue of our assistance programs create and maintain other government-controlled economies in the underdeveloped nations of Asia and Africa. To do this would be self-defeating for the United States.

The President reminded Secretary Humphrey that there were all kinds and degrees of socialized societies throughout the world. There was even some socialization in the United States itself. We did not need to fear a socialized state as something inimical to us in itself. Sweden was a highly socialized state and Norway only less so. Both were warm friends of the United States. What we must guard against is socialization which goes the whole way and uses totalitarian methods so that the state in question ultimately comes under the control of Moscow. If this should happen in enough instances, the United States itself would finally "go down the drain."

Secretary Humphrey continued to express his anxiety lest we build up a whole series of images of Moscow in the backward countries we were assisting. Governor Stassen, however, strongly supported the views of Secretary Dulles that we should move at once on this problem. The important thing was to back private enterprise as much as possible in the countries we were assisting. It was for this reason, said Governor Stassen, that he had been so concerned with assistance to build up the Tata enterprises in India. Secretary Humphrey said that of course he was not arguing that we should sit still and do nothing. We should, however, move in the direction of freedom of the individual and private enterprise in the countries we were assisting rather than to support government control of industry.

Mr. Allen Dulles pointed out that it was going to be very hard for the United States to compete with cheap Soviet money as had been shown by our attitude toward a loan to the Tata interests in India. The President said that there was perhaps one comforting thought that might be drawn from this gloomy picture. A country which has developed some degree of industrialization is much more prone to revolt than a country which still is based on a primitive agrarian economy. History proved this point. Governor Stassen added that a country which has developed a reasonable degree of industrialization is much more likely to evolve than a country whose economy remains basically agrarian. Secretary Wilson added his opinion that the best thing that Russia could do for the United States would be to manufacture and distribute five million automobiles to the citizens of the U.S.S.R.

Mr. Streibert said that he felt constrained to point out that in our dealings with the Asian people, we were concerned with ideas just as much as with pure economics. The Soviets had been assiduously and successfully planting in Asia the idea that Communism was the wave of the future and that capitalism was dying. Mr. Streibert believed that we would derive more profit from our aid programs if we kept in mind, in connection with them, the need of supporting the ideals of free enterprise and enlightened capitalism. We must not minimize the impact of ideas on the minds of the people of Asia.

Mr. Allen Dulles pointed out that regrettable as it might be, most of the free countries of Asia have such primitive societies and governments that there is no private enterprise which can be developed and supported by U.S. assistance programs. Agreeing with Mr. Dulles, the President observed that of course we have got to start with what we have got. We must try to bring the patient along. We cannot let these Asian nations go down the drain and be swallowed up by the Soviet Union while we are engaged in a campaign to promote the ideals of free enterprise.

The Vice President observed that from the point of view of his experience in the Asian countries, there was one point worth bearing in mind. One or another of the great powers is certainly going to develop the backward nations of Asia. Unless, therefore, the United States assists these countries (trying as far as possible to develop private enterprise), the Soviets will do it instead. If this latter happens, the assisted country first becomes an economic satellite of the Soviet Union and shortly thereafter a political and military satellite. The Vice President concluded by stating his agreement with the President that the United States would have to work in Asia with what it found there. This might mean that we would have to assist in the development of government-controlled enterprise rather than to work with a free enterprise system as we would naturally prefer.

After this discussion Mr. Allen Dulles indicated that there were one or two more points to be covered in his intelligence briefing. He wished to point out that the Soviet foreign assistance program would henceforth be run by a semi-autonomous office directly under the U.S.S.R. Council of Ministers. Mr. Dulles believed that this step was of great significance.

Mr. Dulles also pointed out that the Soviet Ambassador to Brussels had at last "wangled" an invitation from the Belgian Government to make a tour of the Belgian Congo. Mr. Dulles thought that Admiral Strauss would be particularly interested in this development.

After Mr. Dulles had commented briefly on Soviet offers of economic assistance to Libya, the Sudan, and to the Latin American Republics, the President said he wished to put a question to the National Security Council. Why did the United States not send high-level missions of our own country to visit the same countries that had been visited by these Soviet missions? We could show how good we were in this fashion and correct the false impression given by the Soviet visitors.

As the final item in his intelligence briefing, Mr. Allen Dulles said that there were widely confirmed reports that the Soviet Union was trying to use Finland as a lever to create a Scandinavian Federation. The Soviet objective was evidently to get Denmark and Norway out of NATO and Mr. Dulles doubted whether this maneuver would attain the objective.

The National Security Council: [2]

a. Noted and discussed an oral briefing on the subject by the Director of Central Intelligence with specific reference to the recent trade and technical assistance agreements between Yugoslavia and the Soviet bloc, the whereabouts of Marshal Bulganin, the basic features of the latest Soviet 5-year plan, the recent Soviet approaches to the underdeveloped countries of Asia, Africa, the Middle East and Latin America, and to current Soviet maneuvers designed to create a Scandinavian Federation outside of NATO.

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[2] Paragraphs a–b that follow constitute NSC Action No. 1505. (Department of State, S/S–NSC Files: Lot 66 D 95, Records of Action by the National Security Council, 1956)

b. Noted and discussed a statement by the Secretary of State on the importance of adequately appreciating and dealing with the serious challenge which Soviet industrial progress posed for the United States with respect to the Soviet impact upon, and avenues to penetration of, the underdeveloped countries of the world, particularly in Asia.

[Here follow items 4–6.]

S. Everett Gleason

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15. Letter From the Representative at the United Nations (Lodge) to the President[1]

Paris, March 5, 1956.

SUBJECT

Economic Aid to Foreign Countries

DEAR MR. PRESIDENT: Stalin's death eliminated the violent sounds which helped to keep our allies together.

In its place has now come the most effective campaign to date to break up NATO and to penetrate Africa and the Near East.

I have just seen this in Libya (Soviet offers of road building material, hospitals, doctors, etc.) and Sudan (Czech tractors for cotton). Jack McCloy has just told me of great Soviet activities in Saudi Arabia. Communists (with help from the Arabs) have created anti-American feeling in France.

Enclosed is a memorandum which sets down some ideas on how the United States should react to these Soviet tactics in the field of technical and economic assistance.

With warm and respectful regard.

Faithfully yours,

Cabot L.

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[1] Source: Eisenhower Library, Whitman File, Administration Series, Lodge, Henry Cabot, 1956. Top Secret.

[Enclosure]

Memorandum From the Representative at the United Nations (Lodge) to the President [2]

Paris, March 5, 1956.

SUBJECT

Proposed United States Reaction to New Soviet Tactics to Penetrate Africa by Technical, Economic and Political Means

1. Many of these tactics are fundamentally political and psychological. They are the type of tactics which have been used at home in American politics, but which for many reasons Americans do not use abroad.

For example:

(a) When the late Frank Hague was Mayor of Jersey City or when James Michael Curley was Mayor of Boston, scarcely a curbstone or lamp post could be installed without its being done in such a way as to provoke a wave of gratitude, complete with speeches, publicity, etc. Yet the former head of United Nations Technical Assistance in Afghanistan told me that in the capital, Kabul, the Soviets had won considerable applause simply by paving the main streets of the city which for years had irritated everybody because it was so full of dust in the summer and mud in winter. But the United Nations and the United States have done work which was far more sincere and far more constructive without getting much credit.

(b) Upon arriving in Geneva I was told that the Soviet representatives at Geneva always give immense tips to the chambermaids and taxi drivers and that the Soviet generosity becomes the talk of the town. When I was in Tripoli, I was told that a member of the Soviet Embassy in Tripoli pulled two Libyan pounds out of his pocket and said to his cab driver: "I have two pounds and I split them with you—one for you and one for me." These examples were reported to me as examples of diabolical Soviet cleverness.

Yet many a man who has run for office in the United States has had the experience of spending the night in a hotel in a part of the state which was remote from his home and of giving large tips to chambermaids, bellboys, etc., knowing of the favorable talk which this produces in the community.

These incidents are not mentioned in order to prove that we should send more American politicians abroad. Nor do I think we should give up our emphasis on quality projects undertaken with a sincere desire to improve basic conditions.

But we should have every now and then a so-called "flashy" project which does create some favorable talk for the United States and we should not be in the

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[2] Top Secret.

position of being a "Mother Superior" who is always trying to make the little boy swallow some medicine he doesn't like.

We cannot expect all American representatives to be politically clever or irresistibly charming, but they should all be tactful and they should make a real effort to think in psychological terms—of what the effect of our program will be on the mentality of the people of the country where he is stationed.

2. To meet the new Soviet tactics there should be *an administrative organization which will enable American officials to move quickly*. Having, in the Cabinet meetings, heard so often about our wheat surplus, it was astounding to realize the trouble and delay there has been in sending wheat to Libya. This was partly due to the necessity to get clearances from many different officials in Washington; it was also due to a desire not to send the Libyans so much wheat that they would not start their own wheat-growing program. I think there can be too much of the latter attitude. They are going to have to make their own mistakes and learn by their own experience. If they want a little more wheat than our experts think they should have, I would be for letting them have it, particularly as it would reduce our surplus by that much.

3. *The Executive Branch should be enabled to make long-term arrangements*. I believe that if the President had the authority to make a five or six-year program in Libya, it would in all probability be cheaper in dollars in the end, as compared to yielding to an endless succession of blackmail-type trades, and it certainly would put us in a bargaining position where we could get some very valuable concessions involving our own security—such as a Libyan prohibition on Soviet activity in the area of our Libyan bases.

4. Study should be given to making an offer to the Soviets to cease this poisonous competition, with its debilitating results for these weak countries, and *joining us in a multilateral program* under the United Nations on a basis of a high percentage of funds in convertible currency. We could use the nonconvertible percentage to expend our own surpluses. We could certainly control a multilateral program under the United Nations, and there is no doubt in my mind that the Soviets would refuse such an offer. If they accepted it, it would be good. If, as seems likely, the Soviets are determined to continue a bilateral program, then we have no choice but to continue with a bilateral *and* a multilateral program as we are now doing.

5. Speaking more broadly, it seems that the American people and Congress would accept as a working policy the proposition that the United States, as a country which achieved its own independence 175 years ago, is naturally interested in seeing to it that other

nations who have just achieved their independence, maintain theirs and that economic aid can be based on this concept.

H. C. Lodge, Jr.

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16. Memorandum From the Director of the International Cooperation Administration (Hollister) to the Acting Secretary of State [1]

Washington, March 14, 1956.

SUBJECT

Ambassador Henry Cabot Lodge's Memorandum to the President

Answering your request of March 9th [2] that I give you a report in connection with the President's memorandum which enclosed Ambassador Henry Cabot Lodge's memorandum datelined Paris, March 5th, [3] I am enclosing [for] you memoranda [2] which have been submitted with respect to the various parts of this report by different people in my organization.

Of course, Ambassador Lodge has raised points which are basic in the whole foreign aid program and have been given a great deal of thought by me, as well as, I am sure, by my predecessors in this work. Some of the issues raised cannot be settled conclusively one way or another. Let me comment briefly on the five points he has made.

1. The trouble with the "flashy" project is that, in general, it does not stand the test of time, and if our effort is to be a constructive one, the brief publicity achieved by the flashy project may well be more than counteracted by the ultimate disappointment when a project turns out to have been flashy and nothing else.

Of course, we have long since decided not to try to make a country take something it does not want—what Ambassador Lodge refers to as the "Mother Superior" attitude, but it seems to me we would be equally foolish to spend a substantial amount of money to give a country something it wants if it isn't good for it.

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[1] Source: Eisenhower Library, Whitman File, Administration Series, Hoover, Herbert, Jr. Top Secret.

[2] Not found in Department of State files.

[3] *Supra.*

2. Obviously, Ambassador Lodge's suggestion that we should be able to act quickly is basic. I think we have demonstrated that we can act quickly when an emergency arises. Examples have been given in the memoranda which I enclose. It must be realized, however, that speed in embarking on an expensive program, or one that involves some substantial policy decision, can frequently do more harm than good.

In any organization, particularly government bureaucracy, one must be continually alert to the elimination of red tape, and I think an organization such as this, where communication, except by cable, takes many days, we are always striving to improve our mission personnel so that more discretion and authority can be given to the field, and thus permit regular programs to go forward faster.

3. We, of course, are all agreed as to the desirability of authority for long-term *projects*. Ambassador Lodge refers to five or six-year *programs*. You will remember that I recommended that the long-term authority be made applicable to programs as well as projects.

4. This suggestion deserves study. Remembering the ill-fated UNRRA, and realizing the enormous overhead percentage cost of the international organizations now operating, I wonder whether we want to get into larger multilateral programs under the United Nations unless there is some very definite political advantage.

5. Ambassador Lodge's statement here is indisputable, but it only covers a part of our program. Many of the countries with which we are dealing achieved their independence a good many years ago, and there is no relationship between our economic aid and this achievement. It would seem to me that the thing to stress is the fact that we have reached great heights through complete freedom of all kinds, that we support it everywhere, and that one thing we have demonstrated is that we are only too anxious not only to free, but to assist countries which through the hazards of war have come under our domination.

John B. Hollister

17. Memorandum From the Representative at the United Nations (Lodge) to the President[1]

New York, March 15, 1956.

SUBJECT

Economic Aid for Underdeveloped Countries

The two acts of the President in the field of foreign relations which have won the greatest support have been the Atoms for Peace and the "Open Sky" proposals. Both were tremendously effective because they were affirmative, they took the initiative, and they challenged the Soviets, offering to match them in word and deed. My most memorable moment at the United Nations was when I offered the 100 kilograms of fissionable material on behalf of the United States.

A third step of a similar nature should now be taken. It is:

For the President to announce that the United States, believing (a) that underdeveloped countries should be helped, (b) that it is beyond the power of any one country acting alone, and (c) that economic help as a disguise for political penetration is pernicious, offers to join forces with the Soviet Union and other United Nations members and challenges the Soviet Union to match our contributions up to a certain amount to an international fund for economic development. Contributions to be largely in convertible currency (and the non-convertible part to be used to expend our own surpluses).

Advantages of such a scheme are:

1. Every country which today tries to siphon money out of the U.S. Treasury could thereafter be very plainly told that all it has to do is to get the Soviet Union to put up the same amount and the United States will come through. We would really capture the initiative and "put the monkey on their back".

2. It would undoubtedly be actually cheaper in dollars than succumbing to a succession of last-minute blackmails involving crash payments to protect vital American interests, such, for example, as protecting Wheelus Base in Libya against Soviet penetration.

3. It would put us in the position of: "Anything you can do I can do as well—if not better".

4. It would be carried out by personnel who would be uniformed and labeled and the whole operation would have great

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[1] Source: Eisenhower Library, Whitman File, Administration Series, Lodge, Henry Cabot, 1956. Top Secret; Eyes Only.

publicity, which would protect the recipient nation from being subverted.

5. It could not possibly open any door to the Soviet Union which is not now open to it, but would instead mean that Soviet activity could be under some sort of supervision.

6. If the Soviet Union refused, we would have scored an immense advantage in the cold war and when nations made requests of us in the future they could be constantly reminded of the fact that the Soviet Union refused to help. It would bring all exaggerated ideas about the U.S. Treasury down to earth.

7. Such a program should, of course, be used to help us get some of the things that we want abroad—such as security for our bases.

8. The main drive, however, should be to build up these countries economically and George Humphrey should be put in charge of it, who would think of it basically in terms of economic health.

9. Much of the money would be spent in the United States to buy products of American industry.

10. This should be done under the aegis of the United Nations to avoid having it look like a cold war move. We could probably get the set-up we want at the U.N.

11. We should act soon because probably the Soviets will think of making some offer like this themselves and then we would be put in the position of running along behind the bus picking up the pieces.

12. The friends of America and the opponents of communism in these countries all speak of the need for a coordinated policy which will give us the initiative. The above proposals seek to meet that urgently-expressed need.

13. The Soviets are constantly pulling ahead and if they win the contest the expense to us will make this scheme seem trifling. The above scheme offers the best hope of our winning.

H.C. Lodge, Jr.

18. Memorandum for the Record by the Under Secretary of State (Hoover)[1]

Washington, April 30, 1956.

SUBJECT

Meeting at the White House. 5:30 p.m., Monday, April 30, 1956

The meeting was called by the President to review the matter of a commission of distinguished individuals to consider the longer term aspects of our foreign aid policy. Those present were:

President Eisenhower
Secretary Dulles
Senator George
Senator Alexander Smith
Under Secretary Hoover
General Persons
Representative Richards
Representative Chiperfield

The President asked Secretary Dulles if he wished to make an opening statement as to the purposes of the meeting. The Secretary said that he believed it of extreme importance that it should be recognized by everyone that the commission was not constituted for the purpose of making any recommendations for a change in this year's program. The program now before Congress should be enacted along the lines now presented.

Senator George said that he had not asked for action from his Committee on his proposal but only that they should think it over. He agreed with the President the members of the commission should be drawn from outside the government and the Congress. It was his thought that they should make a general over-all review of all aspects of our foreign aid program.

The Secretary felt that such an investigation should not be so broad as to recommend whether the program should, or should not, be adopted in its entirety but, rather, the ways and means by which the program could be made most effective. He said, for instance, that the commission should not be asked to determine whether there should, or should not, be a military program on Formosa, but, rather, whether it was being done right or could be improved.

The Secretary pointed out the difficulties inherent in the military problem due to the long-term nature of the expenditures and the necessity for a substantial pipeline. The economic program, on the other hand, could be placed in operation more rapidly after appropriations had been authorized, and therefore a much smaller amount was necessary in the pipeline.

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[1] Source: Washington National Records Center, ICA Director's Files: FRC 61 A 32, Box 306, Committees—Fairless. Confidential.

The President said that he had envisioned a small group of eminent men, equally divided between both parties. He asked Senator George and Mr. Richards how they would feel about such men as Mr. Woodruff,[2] of the Coca Cola Company, and former Secretary of Commerce Sawyer,[3] both of whom are Democrats. Senator George and Mr. Richards agreed they would be most suitable and said they hoped that their services could be obtained. It was anticipated that the report should be available early in 1957.

Mr. Richards expressed his worry about the effect the establishment of the commission would have on the progress of this year's Mutual Security Bill. He pointed out that there was a lack of enthusiasm in many areas of Congress and a determined desire on the part of many Senators and Congressmen to see the total amount of the bill cut down substantially. He felt particularly that a substantial cut in military appropriations would be forthcoming.

The Secretary emphasized strongly that such a cut could not be made without seriously imperiling foreign relations and our defense against communism everywhere in the world. He mentioned especially the four year cycle that was required between the time that ICA submitted its first plans to the Bureau of the Budget, and the final operation in the field.

In the general discussion that followed, the President and the Secretary stated the necessity for having the widest possible discretion in the Executive Branch in order that the programs might be successfully adapted to conditions that prevailed at the time of application. Final conditions often could not be envisioned when they were first presented to the Bureau of the Budget and to the Congress. There appeared to be general agreement that maximum possible discretion and flexibility should be given to the Administration in carrying forward the general objectives of the Act.

Mr. Richards then outlined the practical problems which he felt faced Congress, and the probability that the $4.9 billion request would be cut a billion dollars, most of which would come out of the military proposals as a result of the large backlog which was in the pipeline.

Mr. Richards then went on to say that on the matter of continuity of the Aid Program, he felt that a general statement should be incorporated in the bill to the effect that as long as the national security was involved, Congress would continue a foreign aid program.

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[2] Robert W. Woodruff.

[3] Charles Sawyer, Secretary of Commerce under President Truman, 1948–1953.

The President said that he wanted just such a statement, and that he thought the one presented by Mr. Richards was excellent. He said that we had never wanted anything more specific than that. The President then went on to an extended discussion in which he strongly emphasized the great necessity for the full $4.9 billion appropriation. A general discussion ensued, in which the difficulties before Members of Congress were set forth. The President stated that he would take every possible opportunity to go on record publicly for the Administration's request before Congress.

Returning to the matter of the commission, the President suggested that the Administration would get up a list of individuals who might be suitable for the commission and talk it over again with Senator George and the other Members of Congress who were present. He pointed out that there were many legal problems involved in setting up the commission, not the least of which was the conflict of interest that made it difficult to appoint individuals such as Mr. Woodruff. All present were agreed that some method should be found whereby this would not preclude the services of qualified individuals.

H.H. Jr.

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19. Memorandum From the Deputy Director of Operations, International Cooperation Administration (FitzGerald), to the Director (Hollister)[1]

Washington, July 16, 1956.

SUBJECT

CFEP Meeting—July 13, 1956

CFEP met briefly on the afternoon of July 13 with its new Chairman, Mr. Clarence Randall.[2] No formal business was conducted. Mr. Randall indicated in vigorous terms what he believed to be the primary assignment of the Council under his leadership; namely to review and overhaul from stem to stern U.S. foreign economic policy, including the entire Mutual Security Program. He indicated his belief that our foreign aid program was a heterogenous combination of outmoded activities based in many instances on outmoded policies; that we needed first to define explicitly what was the basic objective of our foreign economic policy which he did not believe was "milk for every Hottentot" but rather military security. Secretary Humphrey doubted whether the Chairman meant military security in the narrow sense and suggested that all of our foreign economic policies should be determined on the basis of "what was good for the United States".

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[1] Source: Washington National Records Center, ICA Director's Files: FRC 61 A 32, Box 314, Randall. Official Use Only.

[2] Randall replaced former Council Chairman Joseph Dodge on July 10.

Mr. Randall indicated that he expected during the next few months to talk with anybody who would listen or who believed he had ideas and indicated his intention to visit at least Paris and Tokyo to talk with U.S. representatives at those capitals.[3] He indicated in passing that in his recent conversations in Paris he had been impressed by the unanimous opinion of all Americans he talked to that the United States should follow a more multilateral approach than it had in the past. This did not necessarily mean a United Nations approach.

Finally, Mr. Randall indicated that he hoped to be able to organize some sort of a public group to work with him in this field. He was not sure whether he would finally recommend a Presidential Commission or the appointment by ICA either at his or the President's request of a group of consultants whom Randall could use as a sounding board for ideas and proposals as he developed them. He expressed his intention to complete this review and revamping by January 1, 1957, and he bespoke the support of the entire committee in getting the job done.

With that the meeting adjourned.

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[3] Randall undertook field trips to Europe in September and to Asia in December 1956; see vol. IX, pp. 22 ff.

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20. Memorandum of Discussion at the 290th Meeting of the National Security Council, Washington, July 12, 1956[1]

[Here follow a paragraph listing the participants at the meeting and item 1. The Vice President presided.]

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Prepared on July 13 by Gleason.

2. Report by the Vice President

The Vice President said that as originally planned, his trip was to be confined to the Philippines.[2] New responsibilities had been gradually added, so that he had ended up with visits to six different countries, each one of which was an ally of the United States receiving U.S. military and economic support.

In general, said the Vice President, it seemed to him that as far as these allies were concerned the trip had served a useful purpose. He had talked either to the chief of state or to the chief of government in each of these countries, and in no case had the conversation lasted less than two or three hours. He found that the people of these countries were greatly in need of reassurance as to the attitude of the United States. The current confusion with respect to our position on neutralism had caused a great deal of disruption in these allied states. They had got the idea, except in the case of the Turks, that the United States considered it better for the country to be a neutral than to be an ally of the United States. The Vice President had been able to provide reassurance, he said, on this matter, and the people in these governments had responded well to the reassurance. All of them were good, firm, stout people on the side of the United States. In the future, however, we must bear in mind the absolute necessity for a tough, unequivocal U.S. line which would leave no doubt as to where we stood and where these allies stood in our joint resistance to Communism. Any doubts about this, particularly doubts in Asia, could have a catastrophic effect on the entire U.S. position.

Speaking again, he said, on the "plus side", every single one of the nations that he had just returned from visiting seemed to him stronger economically, politically and militarily than on his earlier visit three years ago. For this happy situation much of the credit was due to the policies which the Eisenhower Administration had adopted and carried out.

[Here follows discussion of the lease of military bases in the Philippines (see volume XXII, page 657), Pakistan, and Cyprus (see volume XXIV, page 378).]

In the remaining portion of his remarks, the Vice President said that he would deal with matters concerning U.S. programs which would be of particular interest to the people around the table. The first of these problems had been particularly well laid out by Ambassador Karl Rankin in Taiwan, though the problem he discussed was common to the whole area and not confined to Taiwan. In essence, Ambassador Rankin's complaint was that we have far too many Americans in Formosa and far too many conflicting programs. It was Ambassador Rankin's conviction that, in addition, all these programs must be coordinated under the Ambassador. The Vice President said he was throwing out this statement for what it might be worth, because the reality of Rankin's complaint was borne out by the situation in practically all the other countries he had visited.

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[2] Nixon visited Vietnam, Thailand, Pakistan, Taiwan, and Turkey as well as the Philippines, where he participated in ceremonies commemorating the 10th anniversary of Philippine independence on July 4. Documentation on the visit is in Department of State, Central File 033.1100–NI.

Admiral Radford said that he had brought back the identical impression from his last visit to the Far and Middle East. There were simply too many Americans in all of these countries. Secretary Wilson said that he had been doing his very best to make it clear to the top military man in each foreign country that he must work in closest harmony with the Ambassador. Moreover, added Secretary Wilson, the Defense Department is doing its best to see how many Defense Department officials we can bring back home.

Secretary Humphrey observed that the criticisms made by Ambassador Rankin had been made by everyone who goes anywhere to visit our foreign missions. The problem had been with us ever since the new Administration took over. We had been talking about it insistently, and had done nothing.

The Vice President said he would like to suggest that Ambassador Rankin's report be considered a pilot study. The large number of American officials was a serious problem. All of these oriental countries have their pride. It was probably better to let them do things their own way, even if they were done less effectively than we Americans would do them. Secretary Wilson commented that the best way to get rid of these excess Americans was to cut off the flow of money so that they couldn't go to these foreign areas.

The Vice President said he wished to emphasize one exception to this problem of excessive personnel. The personnel of the Department of State in the areas he visited was in general too scanty. He could not emphasize too much the essentiality of seeing to it that the Ambassador was the boss. After all, the Ambassador must represent the United States in these countries.

Secretary Dulles commented that, as it happened, he, Mr. Hoover, Mr. Murphy and Mr. Henderson had had a meeting on this very topic only yesterday. The International Cooperation Administration planners and groups are practically out of control from a policy point of view. Top decisions as to assistance to foreign countries are, of course, made by State Department officers. But the specific programs are handled by ICA personnel in the field, and these latter often refuse to have any dealings whatsoever with the Ambassador. As a result, there is a lot of boondoggling and very little political supervision in the foreign field. We wondered whether we couldn't put in a rule that no recommendations from ICA personnel in the field could be sent to Washington for decision until these recommendations had been approved by the appropriate U.S. Ambassador.

The Vice President said he agreed heartily with this thought of the Secretary of State, and supposed this was why the Administration had determined to put ICA in the State Department. Secretary Dulles went on to state that in any event we must get our house in order, for we are about to undergo a Congressional investigation of all our foreign assistance operations. Accordingly, we must be sure that all of these assistance activities are carefully supervised by our Ambassadors, and that we have eliminated excess personnel, and that our programs are designed to achieve some concrete and useful result and not merely to keep certain people busy in foreign areas.

Secretary Humphrey again commented that the Administration had been talking about this problem for nearly three years and as yet had not done a damn' thing about it. The worst influence of all, he believed, came from representatives abroad of the Department of Agriculture. The banks were also troublesome. What we need, therefore, is some kind of a system designed to accomplish our objectives. The Attorney General commented that if we didn't get such a system we were going to lose our whole foreign assistance program through Congressional hostility.

The Vice President said he had one more point to make on this subject. The ICA officials repeatedly insisted that they never did anything by way of carrying out programs in these countries unless and until the governments of these countries agreed as to the desirability of these programs. The trouble here, said the Vice President, was that of course any of these foreign governments would agree to almost any program provided the United States paid for it. Instead of this system, it was the Ambassador who ought to talk to the appropriate officials of the foreign government and find out what the country really needed, rather than simply what it was willing to take.

Admiral Strauss said that the ICA was also beginning to parallel his organization, and that this was going to cause trouble in the future for the Atomic Energy Commission. Mr. Peaslee commented that on the basis of his own experience as Ambassador, he heartily agreed with the views expressed around the table on this problem.

The Vice President then turned to the Secretary of State and asked him whether he did not possess sufficient authority in himself to issue orders which would put an end to this problem. Secretary Dulles replied that he probably did have such authority, but it would be more effective if he could secure NSC or Cabinet backing for the necessary reforms. He added that he would come up in a week or so with concrete proposals for consideration by the National Security Council. Secretary Humphrey said that everyone would agree that this was what should be done. Director Brundage added that a practical way to meet this problem would be for the Bureau of the Budget to refuse to provide funds for these programs unless they had received specific State Department approval. Secretary Dulles remarked that Mr. Hollister, head of the ICA, was just as unhappy about the situation as he was, but Mr. Hollister found it very hard to control his farflung organization.

The Vice President pointed out that there are a lot of officials out in the field who have a vested interest in their programs. Some of these were, of course, very competent officials. Others, however, were altogether useless. Secretary Dulles agreed with Director Brundage that perhaps the best thing to do was to fix the situation by cutting off the supply of funds.

The Vice President then added that on the military side also some of our MAAG's (Military Assistance Advisory Groups) were too big. The military assistance people, as well as the economic assistance people, could profit from a little self-examination. Secretary Wilson commented that there was no question about the truth of this point.

In the matter of our aid programs, the Vice President said that he had one other thought. The political effects of our assistance projects were obviously of great importance. Generally speaking, on the economic side the Vice President felt that we should emphasize big "single shot" projects as opposed to scattered or very long-term projects. In general, the impact of the single-shot projects was much greater locally. Of course, however, the choice is one which requires the exercise of judgment.

The Vice President added that a particularly bright spot was provided by the much improved job being done by the personnel of USIA. An exception to this was Thailand. The USIA man there had been there too long and seemed tired. Mr. Streibert commented that he was aware of the situation.

. . . .

The Vice President said that as his final observation he would comment on the controversy between Nehru[3] on the one hand and himself and Secretary Dulles on the other. In this respect, he said, he could not emphasize too strongly that at this time in our history it was extremely important that the United States follow the line which it had long since adopted, and that we not appear to court neutrals and to abandon our allies. We will not gain in the long run by assuming a servile attitude and glossing over the difference between the Communist world and the free world. Our policies of the last three years have been the right policies, and we should continue to carry them out. If we seem to suggest that we think that the Russians have changed greatly in recent months and that there is now no real danger from Communist imperialism, we should be making a fatal error. On the contrary, this is the time to press even harder rather than to relax. Of course, we should continue to court Prime Minister Nehru and the neutrals rather than let them go down the drain. Nevertheless, we should not hesitate to point out firmly and courteously the difference between accepting assistance from the Communist countries and accepting aid from the United States. If we do not make this clear, our friends will gradually have been nibbled away.

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[3] Pandit Jawaharlal Nehru, Prime Minister of India.

The National Security Council: [4]

Noted and discussed a report by the Vice President on his recent trip to the Philippines, Taiwan, South Vietnam, Thailand, Pakistan, and Turkey.

[Here follow items 3–6.]

S. Everett Gleason

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[4] The paragraph that follows constitutes NSC Action No. 1581. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1956)

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21. Circular Telegram From the Department of State to All Diplomatic Missions [1]

Washington, July 24, 1956—2:21 p.m.

58. To Chief of Mission from the President. The President has been concerned over repeated reports that in some countries various United States activities are not being effectively coordinated and evaluated by the Chiefs of Diplomatic Missions. This message relates to that problem.

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[1] Source: Department of State, A/MS Files: Lot 54 D 291, ICA–1956. Confidential.

The President is also concerned over reports that in some instances the total number of United States individuals assigned to tasks abroad has become too great. A later message will deal with this and related problems.[2]

In order to emphasize his view that the several foreign operations established by law to further the interests and objectives of the United States must be carried out in a coordinated manner the President has approved the following instructions governing relationships between Chiefs of Diplomatic Missions and the representatives of all United States agencies conducting operations in foreign countries:

1. The representatives of all United States agencies in each foreign country are subject to the supervision and leadership of the Chief of Mission in connection with any of their activities which in his own judgment affect relations between the United States and the country to which he is accredited. The Chief of Mission must exercise active leadership and supervision in connection with such matters, subject to any general and specific instructions from the President or the Secretary of State.

2. The Chief of Mission has specific additional responsibilities with respect to the Mutual Security, agricultural, informational and related programs referred to in Section 201(b) of Executive Order No. 10575[3] and in Executive Order No. 10560. Primary responsibilities for the administration of these programs have been assigned to various United States agencies which maintain direct operating relationships with their representatives abroad. At the country level, however, the Chief of Mission has ultimate responsibility to assure that these program activities are carefully planned and effectively carried out within the framework of established policy, and that they are coordinated with each other. The organizations which are administering these programs at the country level are therefore subject to the supervisory authority of the Chief of Mission in carrying out this responsibility.

3. In discharging his responsibilities the Chief of Mission will need and should have the close collaboration of representatives of all United States agencies. In this connection Section 201(d) of Executive Order No. 10575, which precludes delegation of his functions, should not be interpreted narrowly to obstruct establishment of an effective staff pattern within the country. The ultimate responsibility of the Chief of Mission cannot be delegated, but when directing

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[2] Circular telegram 168 from the President to the chiefs of certain diplomatic missions, September 5, not printed. (*Ibid.*)

[3] Executive Order 10575, "Administration of Foreign Aid Functions," was promulgated November 6, 1954; for text, see 19 *Federal Register* 7249, or Department of State *Bulletin*, December 13, 1954, p. 914.

large and complex operations he necessarily carries out his executive and coordinating functions in some degree through subordinates.

Hoover

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22. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Prochnow) to the Secretary of State[1]

Washington, July 27, 1956.

SUBJECT

Summary Conclusions of the Interdepartmental Committee on Certain U.S. Aid Programs

The Committee has undertaken, in response to the NSC request,[2] to identify and state issues which emerged from the studies covering the first six countries.[3] There are a number of significant conclusions which can be drawn and which are briefly set forth as follows:

1. The present U.S. military and economic programs for the six countries which are underway, but in most cases only partially completed will cost the U.S. close to $2 billion yearly through 1960 and perhaps $2.5 billion if we responded to requests for enough additional economic development aid to permit a modest strengthening of the economies. If we go ahead on this basis through 1960, the situation at that time would probably not be very much improved. To the extent that inflationary pressures are stimulated, the economic problems may increase. Nothing in the way of a substantial natural tapering off in these expenditures is visible in the foreseeable future.

2. It is clear that the military programs are beyond the capacity of the countries themselves to develop or, with the possible exception of Iran, to maintain. The U.S. has had to cover the build-up costs. In general, we are supporting the budgets and balance of payments of these countries.

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[1] Source: Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5610 Series. Secret.

[2] NSC Action No. 1486 was approved by the President, December 13, 1955. See footnote 14, Document 13.

[3] Turkey, Iran, Pakistan, Vietnam, Formosa, and Korea. The full report containing the specific reports on each country is in Department of State, OFD Files: Lot 59 D 620, All Countries, U.S. Aid Programs, 1956.

3. In spite of the large U.S. assistance, the military establishments constitute a direct and indirect economic burden on the countries (e.g. inflationary pressures and competition for available resources and financing). There are, of course, some compensating economic advantages, e.g. improvement of roads, harbors, etc.

4. Since a considerable part of U.S. aid goes into budgetary support, rather than ~~into pro~~jects to further economic development, the end results of our aid are difficult to control. Reduction of aid in this circumstance becomes extremely difficult and is more susceptible to adverse reactions. If the economic implications of the military build-up are fully realized by the governments concerned, they probably assume in going on with the programs that the U.S. will come to their assistance.

5. The studies do not indicate conclusively that the premises on which the programs in these countries were originally based have been modified as a result of changes in conditions (as, for instance, the development of new weapons or the possible modification of Soviet bloc policy). As indicated above, the budget support nature of much of our assistance tends to minimize our control over its use and to make difficult, for instance, a change in emphasis from military support to a relatively greater emphasis on economic development. The programs tend to become increasingly inflexible.

6. While the military build-up in the various countries may bring some improvements in line with U.S. security objectives, the real amount of security we are obtaining from the expenditures is difficult to measure precisely. For instance the determination of how many divisions are necessary for certain missions appears to depend largely on subjective judgments. The Committee is in no position to determine whether alternative security arrangements which might cost less are feasible. It is clear, however, that anything approaching major aggression against any of the countries would, now or after the build-up, require substantial and prompt outside assistance.

7. Having done what we have and made such commitments as we have, rightly or wrongly, any substantial cut-back on either the military or economic side would be politically very difficult. There is no particular reason to suspect that cut-backs will be less difficult in the future; in fact, the longer we support budgets and balance of payments the greater would seem to be the problem of reducing our aid, since our support will tend to be more and more built into the budgets of these countries as anticipated income.

8. Much of the advice and provision of information on which programs are determined and developed comes from field representatives. While they have a role to play in making decisions, the feeling sometimes emerges from the studies that perhaps they may lack the broad perspective needed to provide entirely objective advice.

The studies on this group of countries should provide a broader basis on which to make policy decisions than that on which earlier decisions were made and should underline the importance of a coordinated assessment of the implications of such decisions, whether for continuation of present programs or otherwise.

Recommendations:

The above observations, particularly the general one that it may be as difficult in 1960 as it is at present to reduce the degree of our involvement in these countries, point toward the desirability of

a) reassessing our basic objectives in respect to these countries, in the light of (1) present international circumstances, (2) the continuing large costs involved and (3) total U.S. responsibilities;

b) re-examining possible alternative means of achieving our security objectives, present or modified;

c) reassessing the proportion of our aid for military as compared to economic expenditures in the light of present circumstances.

It appears, generally speaking, that the U.S. may have participated in the expansion of military plant in these countries beyond a point justified in terms of economic and security considerations. The further we go in this direction the greater are our contingent responsibilities. In this situation, unless more real economic development assistance is forthcoming from somewhere, these economies may experience little or no increase in strength.

It appears, therefore, that U.S. policy should look toward a negotiated adjustment downward in military aid. It appears further desirable to accompany this course with greater emphasis on economic development projects. Transferring funds saved from a reduction in military outlays as practicable or politically necessary into well planned economic development would at least be a stimulant toward economic growth. This course, if accompanied by adequate security assurances, may not be entirely unwelcome to these countries. It may offer hope of eventual relief from the heavy burden we now carry, and may also offer the governments of these countries at least some slight hope of economic progress for their people.

23. Memorandum From the Director of the International Cooperation Administration (Hollister) to the Secretary of State[1]

Washington, August 29, 1956.

1. This is an informal and personal report of one year's operations as Director of the International Cooperation Administration. While it is marked for your eyes only, because of some frank personal allusions, I have given Hoover a copy.

Although I received my appointment on May 2, 1955, I did not take charge until July 1.

In the early weeks of my work although I had a number of meetings with Stassen, they were not particularly helpful from the point of view of assisting me to learn my work rapidly. Stassen had given a great deal of time to public appearances and activities and had left active management to Dr. FitzGerald, except for the short time when William Rand was Stassen's Chief Deputy. I decided to assume active management and, since I wished to understand the whole operation from the bottom up, I spent the entire summer in intensive study. I soon decided that it would be necessary to make a number of visits, and during the year I have taken the following trips:

a. September—To Istanbul as one of the delegates to the World Bank meeting,[2] returning via Cairo and Paris where I held regional meetings of the Near East–Africa and European regions respectively.

b. October—All the Far Eastern countries—Japan, Korea, Taiwan, the Philippines, Indonesia, Thailand, Laos, Cambodia and Viet-Nam. (Hoover was with me for the first four countries.) This trip involved also four days at Singapore as Chief Delegate at the Colombo Powers Conference.[3]

c. December—NATO Ministerial Meeting[4] with you.

d. February—South America. First to Rio de Janeiro as a Delegate at the Kubitschek inauguration,[5] then Bolivia, Peru, Colombia and Guatemala, holding a regional meeting of Latin American mission heads in Lima.

e. March—OEEC meeting in Paris.

f. July—Italy, OEEC meeting in Paris, and Spain.

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[1] Source: Eisenhower Library, Dulles Papers. Confidential; Personal and Private; Eyes Only. This document is from one of two unlabeled folders in box 57.

[2] The 10th annual meeting of the Boards of Governors of the International Bank for Reconstruction and Development and the International Monetary Fund was held in Istanbul, September 12–16, 1955.

[3] Reference is to the meeting of the Consultative Committee of the Colombo Plan in Singapore, October 17–22, 1955.

[4] Held in Paris, December 16–19, 1955.

[5] Juscelino Kubitschek was inaugurated President of Brazil, January 31, 1956.

On the Far Eastern and South American trips I was accompanied by a top USIA officer, and on most of the South American trip by Cecil Lyon, Deputy Assistant Secretary for ARA. The trip to the Far East was with a joint staff of Mr. Hoover's and mine.

I have done no speaking outside of routine appearances in Washington, and have had only four press conferences, generally on return from the important trips. I have felt that all publicity on matters of policy should come from the President or you.

2. I have found the work extremely complicated, although not far from what I had imagined. We have something over fifty missions and are operating in some seventy countries with over two thousand different projects. There is a momentum in an operation of this kind which cannot be stopped quickly nor be easily deflected. I had no part in the presentation of the 1956 program, so for the past year I have been operating a program which I had not planned. Some of the prejudices engendered in the Congress during last year's presentation have plagued us throughout the year, and in this year's presentation. Even the 1957 program, which has just been presented, had been roughly planned before I took over, just as we have now the 1958 program in the rough planning stage. However, as soon as I took over, I made a point of personally reviewing all 1956 programs before approval, even though, naturally, approval was foreordained in many cases.

3. Next to the Department of Defense, this agency has the most difficult operating job in the Government, and it should be conducted by a top executive. Dr. FitzGerald, while his knowledge of the work is extraordinary, and whose energy is indefatigable and abilities high, is not, in my opinion, an executive. I have been trying from the beginning to find a Chief Deputy of high executive caliber. It is very difficult to get businessmen into this work, which requires a special sort of knowledge. There is, therefore, a tendency to use the same people who have been used in the past, irrespective of their real abilities, simply in the absence of those better qualified to succeed them.

4. This organization is a hard working and devoted group of people, and, in general, loyal. The inability to discharge is unfortunate, but this is a familiar government affliction, and on the whole, I have had little trouble. This organization suffers particularly from the fact that the future is uncertain. The work, if it is to continue for any length of time and be at all efficient, should be on a career basis. It is surprising that it goes as well as it does. I believe that we should attempt next year to get Congress to approve legislation setting up a career service in the ICA modeled after the Foreign Service. Ultimately, I believe, they should be integrated, or so arranged that transfer from one to the other would be simple. For

the time being, we have worked out with the Department a consistent standardized pattern governing the salaries of ICA Chiefs of Mission in different countries abroad, and their titles and ranks. Prior to this, there had been a hodge-podge of different salaries and titles which had grown up over the years. We now have a complete and sympathetic understanding with the Department on a world-wide basis so that we can avoid reopening these questions each time a Mission Chief is appointed.

5. Perhaps this is the time to discuss the present organization, which is the fourth or fifth method of carrying on the foreign aid program which has been adopted. I believe that this operation should be an integral part of the State Department. It is obvious that the enormous influence of the economic program in the political area makes it essential that it should be directed as to policy by the Secretary of State. It failed to work properly under Stassen because he was not a team player. Under the new arrangement, as a "semi-autonomous unit," I do not believe it would work much better unless conducted with the idea of complete team work. As you know, Hoover and I have consulted regularly, and have ironed out many things at the top before they got mixed up below. The result is that it was very seldom that you were placed in the position of over-ruling a decision of mine. If there had not been this cooperation, you would continually have had to issue orders to me, and busy as you are, this would have meant relying on recommendations of others with little chance for your careful consideration. I think you have been seldom disturbed during the year, but I do believe the present arrangement is organizationally anomalous and, in the long run, impractical.

I think the ICA should be a branch of the State Department, headed by an Under Secretary for Economic Affairs, who would also have responsibility for all the E area in the Department. Operations proper should be conducted by one Deputy Under Secretary, and other economic matters—perhaps with line authority over all economic officers—should be under another Deputy Under Secretary. I know you dislike taking such operating activities into the State Department, and I am not, of course, urging another early change in an organization which has had so many, but I feel I should tell you what I think is a sound organizational approach.

6. I have tried to make certain reforms in organization and in concept, but I need not tell you that such things move slowly in Government. I have closed the missions in France, Germany, Norway, Denmark, Holland, Belgium, Austria and Portugal, and I am planning to do the same in England and Italy within the current fiscal year. I met with substantial opposition in this action, and at the earnest request of some of my people, I attempted for a short

time to operate with "ICA Representatives" in some of these missions; but, as I had predicted, this did not work, and we have closed the indicated missions completely. In France, Germany and Austria I have left a few people under the Ambassador to liquidate the fiscal work. I have had fine cooperation from the Ambassadors in taking on the residual ICA activities in the countries where the missions have been closed, for, of course, there are some unfinished programs from previous years, and we have the problem of programming accumulated local currency. Our new operations in Europe are, therefore, now confined to Spain, Yugoslavia and Berlin, assistance to the European Productivity Organization,[6] and a very minor labor program in France and Italy. However, substantial PL 480 future programs[7] may well complicate our activities.

Shortly after I took over, I asked John Stambaugh, who was working for Clarence Randall and had been an assistant to Stassen, to review several major parts of the organization, and I put into effect a good many of his recommendations, chiefly:

a. The establishment of coordinated evaluation, inspection and audit functions on a systematized basis.

b. A complete revision of our organization and method for handling contractual matters.

c. The continuing development of reporting techniques to assist top management in controlling the program.

d. Better timing and coordination in our program development process.

I have established a system for communicating operational policy to all employees. Among other things I have used this system to direct the concentration of our country programs into fewer but more meaningful projects, a greater decentralization of responsibility to the field, etc.

Earlier I reported to you I planned a survey of the labor activities of ICA. This was made by Dr. James A. Morris, a labor economist on the faculty of the University of South Carolina, and I approved most of the recommendations. I believe that by certain changes in emphasis, and by cooperative efforts with the Department, we can greatly strengthen our labor program at less cost and with complete Government control of its operations. Incidentally, Dr. Morris has now gone to Turkey, as economist of the USOM.

I have made great attempts to speed things up and reduce the backlog of work in some countries, which is far too great, partly due to cumbersome procedure and lack of adequate pressure in this organization, but in many cases it is due to the difficulty of getting action in countries where businesslike methods are not understood. We have reduced paper work substantially, and I am pushing hard to get the 1957 program under way this summer instead of waiting until the fall, as happened last year. In fiscal 1956, only 15 percent of the year's program was obligated by December 31, which meant that under existing law, 65 percent had to be obligated within the next four months. This was accomplished, but it puts a strain on the organization just at the time the presentation is going forward, and means hasty and ill-considered decisions. You will remember that we tried unsuccessfully to persuade the Congress this year to allow us to postpone 25 percent of the program obligations until October 1, following the close of the fiscal year. I am hoping to get a substantial amount of the FY 1957 program obligated this fall, and obviate last year's "bunching up" in the spring. I am also hoping to go forward with the 1958 planning so that the legislation can reach the Congress earlier. Notwithstanding all my efforts, I could not get it started this year before the end of March. This coming year, it will be complicated by the fact that various study groups will be prosecuting their activities, but we should not let this delay us in our own planning, for otherwise, we would never get through.

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[6] Presumably the European Productivity Agency, established May 1, 1953, by the Organization for European Economic Cooperation.

[7] The Agricultural Trade Development and Assistance Act (Public Law 480), enacted July 10, 1954, provided for the sale of surplus U.S. commodities abroad at prices below those of the current world market; for text, see 68 Stat. 454.

I have become convinced that we have not had adequate technical surveillance over the capital projects which absorb such a large share of our total program funds. I have established a special unit, staffed with competent engineers, who will be able, with the help of private engineering consultation on a contract basis, to maintain technical review and supervision over these projects. Such a unit should insure that major projects are economically and technically sound before large investments of U.S. funds are committed to them. I am sure this action will net us significant savings of program funds. I have also established a contracting office to supervise our vast contracting activities.

7. I have tried to eliminate proliferation, and have issued instructions to try to reduce the number of projects by about 20 percent. This is particularly applicable to technical assistance where there is a tendency to develop new projects without completing the old. I feel that a few well-planned and executed programs are a great deal better than a number of less effective ones. In this connection, we must realize that many of our projects going forward today were committed from FY 1955 and even earlier funds, so my efforts will not be effective for some time. This is why the cuts made in our requests for administration funds are unfortunate, for it needs good administration to taper off and close out the less valuable programs.

I think you know of my attempt to reduce the activities in the dependent overseas territories, knowing that our funds are limited. Unless we stop somewhere, we cannot take on the newer obligations which the changing world requires.

You will recall that in my last report I told you I was considering whether our procurement should be world-wide, or, in certain cases, limited to U.S. sources. A draft policy on this subject was presented to the Council on Foreign Economic Policy, which approved my recommendation that all procurement be on a free-world basis. This has been made a part of our operating policy. In this connection, as soon as I took charge I terminated the special coal buying program which Stassen had started, as it seemed unsound in theory and the coal situation had substantially eased.

8. One of our major working and administrative problems, little understood outside of this organization, lies in the requirements to be met in planning and negotiating a country program. A whole year's program must generally be planned with a country as a "package" deal. This makes it difficult to set aside adequate reserves for emergencies, the total of which, for proper administration, should be substantially in excess of the emergency funds granted by the Congress. When the presentation is made to the Congress, the country involved knows what is programmed for it, and although conditions in the world may change materially, it is hard to take anything away from what a country considers belongs to it. It would be much easier if we could make a base deal with a country for a smaller amount than what we really expect ultimately to give it, and then step this amount up later in the year if funds are available. Additional requirements lie in the fact that we must reach a certain total of agricultural commodities, must consider the problems of loans against grants, the problem of PL 480 sales, the problem of commodity shipments, direct budget support, the engendering of local currency for defense activities, and so forth.

9. This brings me to the question of cooperative planning with the State Department. Unfortunately, with the exception of you and Hoover, there is no one in the Department with an over-all view of the world's requirements. Neither of you has the time to study the whole operating scene. I am, therefore, subject to the most extraordinary pressures from the regional heads and desk men at the State Department, often pushed by the ambassadors, to undertake new projects or speed old ones. While my own organization is equally inclined to support such requests, I am in a position to regulate them, which I cannot do in the State Department. I am therefore continually fighting a battle to hold down the individual country requests so that I can keep within the available totals and retain funds for last minute emergencies. Almost all projects have merit,

but there must obviously be relative priority, and I am in the difficult position of having to settle this without much help.

10. I would suggest that on the State Department side there be a greater recognition of the machinery necessary to put a program into operation. There is a tendency on the political or "idea" side to feel that a decision can be implemented immediately. This brings about, frequently, a demand for action that results in hasty and ill-timed programs. Perhaps I should set up a special emergency relief fund to cover these calls for aid. We do not get enough advance notice of the intentions of the State Department. A programming study should be made before a tentative approach is made to a country. Instead, a round figure is often picked out of the air by the State Department on the basis of what surrounding countries are getting, or what it might take to make said country politically happy, without consideration of exactly what the country's most important economic needs are or its ability to assimilate such dollar aid. We should not say, "We will give you xxx million dollars," but, "We will help you in the following program." Ceylon and Burma are perhaps examples of this. It would seem that the Policy Planning Staff should call us in from the very beginning.

The problem of advance planning is also applicable to certain international agency operations. For instance, we were asked suddenly last spring to send a high-ranking man to Tehran just prior to the Baghdad Pact meeting.[8] I sent my head of operations for that region out on twenty-four hours' notice, and since George Allen had not yet arrived, Seager had to hold the fort for several days in difficult discussions for which, of course, he was inadequately briefed. It would seem that a situation of this kind could be anticipated and planned for. My own experience in taking over as chief of the delegation at the Colombo Meeting last fall was something the same. While the advance work of our representatives there had been done intelligently, the United States' position had not been well-developed, and the whole meeting evidenced inadequate planning on the part of the United States. It would seem that wherever economic matters are involved in international affairs, the ICA should be called in early in the game for whatever contribution it may make in the way of information, study or personnel. This is recognized in the OEEC, where ICA takes the leading part, but it would seem applicable to a lesser degree with respect to the Colombo group, the Baghdad Pact, and even for organizations such as NATO and SEATO.

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[8] The meeting was held April 16–19 in Tehran under the presidency of Iran's Premier, Husayn Ala. The Baghdad Pact, signed February 24, 1955, between Turkey and Iraq, contained provisions pledging mutual cooperation in defense, noninterference in the internal affairs of the other party, and peaceful settlement of disputes. The Pact, which provided for accession by other powers, was signed by the United Kingdom on April 5, Pakistan on September 29, and Iran on October 25, 1955. The United States did not become a signatory.

Disaster aid is another area which needs organizational study. It cost the United States a million and a half dollars for emergency action in Italy last winter because the Ambassador called for help, the Administration responded, and the Army was called into action—all without advance checking with this organization, which was expected to foot the bill. We could have acted just as quickly at considerably less cost. I believe some machinery should be set up to clear all emergency requests, and that certain criteria should be established. Otherwise, we become a kind of International Red Cross, and the aid given is somewhat hit or miss.

11. The whole question of the function of the head of ICA requires further study. He is supposed to coordinate the whole Mutual Security Program, but how can he coordinate adequately unless his office assists in planning from the very beginning? Otherwise, he is nothing but an operator, subject to orders. My experience at NSC meetings has indicated the need for further review of this question. At present, I go to NSC meetings whenever I believe matters may come up which affect the ICA. However, particularly in the last few months, matters affecting ICA very importantly have come up and have been fully discussed and decisions made when I was not present simply because the agenda did not indicate what might develop. You, or your representative, are, of course, always there, but it is almost impossible to keep you or him fully informed of all the matters of operations in the seventy countries which are vitally affected by NSC discussions and conclusions. Here again, proper organization should require regular representation of the ICA if its head is to be more than one who executes orders. I say all this impersonally, to help out whoever may be my successor. My connections and my year's experience are such that I can keep pretty well abreast of what is going on. It would be extraordinarily difficult for a successor to me to step immediately into a corresponding position without having at least a year of experience, unless there is a change organizationally.

12. From the military side, there should be a review of the coordinating functions of the ICA Director. It is true that MDAP programs must have my approval, but in practice this consists largely of a short study and a few discussions when a year's program is laid down in the rough, and then a check as the work goes forward to see that country programs are followed or variations are justified. There is very little opportunity to influence the establishing of the country programs because these are governed to such an extent by NATO force goals or JCS approved goals. Once estab-

lished and followed, these goals require economic support at a certain level, even though they may demand efforts beyond what the United States can expect to support indefinitely, given the present temper of the Congress. It is true that the Prochnow Committee[9] is studying individual countries in order to ascertain what the commitments are and what the cost will be, both on the military and economic side, of different levels of military effort, but there should be some over-all authority to reach conclusions as to the level of economic demands which can be satisfied. Here again, if this is not the function of a coordinator, his office becomes merely a policing operation.

I should state here that my relations with Gordon Gray and Perkins McGuire are of the best. I have received the finest kind of cooperation from them. Although there have been delays in getting information, this is not due to any lack of hard and capable work on their part to eliminate some of the difficulties which have beset the operations of their office in the past.

13. Another function which needs clarification even more is that of the presentation to the Congress. While it has been delegated to the head of the ICA, he cannot exercise it properly under the present setup. I appointed a top man to conduct the presentation, which he did with energy and ability, but on a number of occasions the decision of who should be witnesses and what they should present was taken out of his hands. This was partly the fault of some of the State Department and Defense Department people who had their own theories of the proper approach to the Congressional committees, but one of the most important failures was adequate political liaison, so important in a matter of this kind. Let me mention a few of the incidents which may have materially affected the results:

a. You will remember that in December, 1955, a satisfactory presentation of the proposed Mutual Security Program was made at Camp David. Later, when the same presentation was made at the White House to the Congressional leaders of both parties, I was informed that the military part of the Mutual Security Program would be handled by the Secretary of Defense, rather than as part of a unified picture as presented at Camp David, which the members of Congress had been led by custom to expect. The result was a complete misunderstanding of the increase in size of the military side of the Mutual Security Program, which plagued us throughout the whole Congressional session. It would seem that these informal advance presentations, not only in the Executive Department but also to the political leaders, should have been part of my responsibility.

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[9] The Interdepartmental Committee on Certain U.S. Aid Programs, chaired by Herbert V. Prochnow, was composed of representatives of the Departments of State, the Treasury, Defense, and the International Cooperation Administration. The Committee examined the military programs in six countries and submitted its report in August 1956; see Document 27.

b. There was, throughout the early days of the hearings, great emphasis on the influence of Senator George to the neglect of Congressman Richards. This the latter resented, and I am certain the action of the Foreign Affairs Committee reflected this pique.

c. Again, when the leaders of both sides of the House were called to the White House just as the bill was coming to the floor, the Speaker, the Majority and the Minority Leaders all stated several times that the meeting should have been called a few days earlier, before the issue was crystallized and the Committee had made its report. Richards himself, you will remember, stated that he could not ask his Committee to go back on the action they had just taken, and when he went on the floor the next day, the issue in the minds of many members of the House was the support of a popular colleague against the steamroller of the leaders. This could have been obviated.

Somebody has to head up matters of this kind. If the Director of the ICA is to have charge of the presentation, it would seem to me that he should direct all activities in connection with it. Perhaps it should be done at the White House, and perhaps it should be done in the State Department, but it ought to be done somewhere.

14. This leads into the whole question of publicity, which is an integral part of the presentation. The Mutual Security Program is a highly complicated subject on which few people have full information. It would seem to me that whenever the subject is to be discussed by a leading Administration figure, there should be proper staffing ahead of time. An example of the neglect of this was the President's Baylor speech.[10] A number of newspapermen pointed out that the President gave no indication that he had any knowledge of the ICA technical exchange program under which some 52 universities are sending representatives into 38 countries under more than 80 contracts.

15. I have given much thought to the place of atomic energy in our work. This subject is difficult to fit into the Mutual Security Program because of its strong political aspects, its security requirements and its connection with the President's "Atoms for Peace" policy. Obviously, the power aspects of the problem, which loom larger every day, are of paramount importance in planning the economic future of a country, which is essentially an ICA responsibility. The whole problem is not well understood in most foreign countries, and the liaison and coordination between our procurement departments have been inadequate. I believe that assistance to our

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[10] For text of the address, given at the Baylor University commencement exercises on May 25, 1956, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1956* (Washington, 1958), p. 526.

friends in developing energy from atomic sources should be handled exactly as energy from other sources, provided, of course, that security regulations are adequate. I believe also that training of atomic experts should also be handled as training of experts in other fields. The State Department should, of course, maintain its policy direction, and the Atomic Energy Commission should control fuel and information, and give technical advice.

16. I have tried to turn certain activities of this organization over to other departments. It seemed to me improper that the work with escapees and refugees should be divided, so that part of this work carried on in the ICA has been consolidated with the work in this and the immigration field in the State Department. I believe that for fiscal year 1958 the appropriations for these activities should be through the State Department appropriation bill. These activities have nothing to do with economics, and are essentially political.

17. I have tried to transfer the investment guaranty program to the Export-Import Bank. While this work is of economic significance in that it is influential in persuading private capital in this country to move into foreign fields, its machinery is more of a banking nature, and since the Export-Import Bank handles the mechanics of all our loans and is in the lending field itself, this work seemed to fall naturally within its jurisdiction. Although I had an agreement with Sam Waugh to take this over, he later changed his mind because he thought it might involve the sterilization of some of his lending power in order to supply reserves for this insurance. I am unable to accomplish this now because the Congress specifically instructed the ICA to continue to administer this program.

18. This brings me to a most important subject, which is the better use of the great amounts we are spending so that we may stimulate private investment as much as possible rather than to continue to make advances or grants to governments. The latter course tends to socialize the countries we are trying to help, and offers temptation to those in control of the government to participate in state-owned capital investment to their own advantage. This organization, under the present setup, can hardly lend to private interests, foreign or American, the dollar funds appropriated for it. We can, however, make available to lending organizations in the countries we are helping certain dollar amounts which will, in turn, be lent by them to private industry, subject to our specific or general approval. This is being done successfully in the Philippines, India, and other countries. We can also make available substantial amounts of local currency, the use of which is under our partial control, for lending to private interests which are willing to invest dollars or other foreign exchange in the country in question. We are discussing

this with the Export-Import Bank, and are negotiating with several American companies for projects to be financed in this way.

We must press continually for legislation in the countries in which we work to improve the climate for foreign private capital. While this activity is supposed to be part of the ICA work, it has always seemed to me to be essentially a function of the embassy proper. I do not believe this is adequately impressed on Ambassadors, from what some of them have told me.

19. This brings us to the question of PL 480, the operations of which have made available so much local currency. Operations under Title I of this law need clarification and decision as to ultimate goal. The tendency has been to make a sale and let the question of the use of the proceeds be thrashed out later, whereas I believe the proper procedure is to have the whole question of the use of the proceeds settled at the time the sale agreement is made. The Department of Agriculture is always pushing for the acceptance of any transaction which will help eliminate the most troublesome of the surpluses, and there is a tendency on the part of the State Department representatives to approve a deal which is politically attractive to the country involved. If, as in the great majority of cases, the country involved wishes to borrow the sales proceeds for the purpose of its own industrial development, the ICA should have the responsibility of planning this development in order that the economic status of the country involved can be best improved. The ICA should, therefore, have a most important part in the planning of these sales from the very beginning so that there will be adequate consideration of this principle. Frequently, the size of the PL 480 program dwarfs completely the ordinary economic operations in a country, and this raises organizational questions. In Chile, for instance, an ICA organization set up for the purpose of conducting a $1.5 million technical assistance program is obviously inadequate to plan and police a $5 million PL 480 development program which has resulted from the sales agreement of January 27, 1955. With the new authorization of $1.5 billion for Title I sales, it is probable that there will be more than $1 billion worth of foreign currencies owned by the United States within the next year or so. The planning of the use of these funds not only becomes a major operation, but we should be considering what will happen in the future when interest and amortization begin, and final payments are ultimately made. I have named a special staff assistant for financial matters to oversee our guaranty and lending functions.

20. When it comes to this over-all planning, we must think through what will happen to our Mutual Security Program if, as is probable, in the not too distant future, we have a year of substantial business recession, with a certain amount of unemployment, and

there arises perhaps a need for internal government aid of one kind or another. Securing appropriations for foreign aid will be most difficult. We must try to work out some way of establishing reserves for our most important programs to tide things over such a year, or years. We must insist on countries doing all they can to help themselves, and doing it now instead of waiting until the time it will be forced on them. Otherwise, there results not only the highly dangerous situation of a country loaded down with a program it cannot continue, but the complete loss of friendship with that country because it will feel we have let it down.

21. I know how much you are interested in the question of what portion of our program should be in loans. There is obviously great pressure from Congress to put all development assistance on a loan basis. Until something can be done to work out the idea you have sometimes stated of making a loan conditioned on the relative future recovery of the borrower, I think we should make more loans of economic developments funds even though the loans are "fuzzy".[11]

22. We must face the problem of handling the various review boards which have been or are about to be appointed. The Senate Foreign Relations Committee and the House Foreign Affairs Committee have set up review boards, and the House Appropriations Committee may do the same. The President is considering appointing his own committee, while there is already in existence the Presidentially-appointed committee of which Eric Johnston is Chairman, and which is supposed to advise him and me on international development. I have created a new Evaluation Staff in my office, to be composed of four teams of two members each. The team members will be senior, experienced personnel, one with ICA experience, and the other, to be detailed from the State Department, with strong economic background. This staff will provide me with objective evaluations of program objectives, content, and operating effectiveness, based on actual on-the-site review of operations. They will spend about three months visiting missions, followed by one month in Washington. This should provide us with an evaluation of each country program approximately every two years.

I hope that the committee appointed by the President[12] will be small, will consist of men who will give substantial time to their work, and will act quickly. I assume it will be unprejudiced, and will not contain those who have strong views, already announced, as to the nature and operations of the program. In this connection, I believe that Bill Rand would be an excellent appointee.

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[11] "Fuzzy" loans were generally understood to be loans extended to borrowing nations on easier terms and at greater risk of default than normal banking practice would allow.

[12] Reference is to the President's Citizen Advisers for Mutual Security. See footnote 2, *infra*.

As far as study results are concerned, I cannot see how there can be an established policy in this work any more than in yours. While the welfare of the United States must be our general goal, a program of value in one country is poison in another. We must act quickly in some emergencies, and in others, wait for the smoke to dissipate. I cannot go along with those who believe in spending taxpayers' money out of pure philanthropy. We can be generous in a real emergency because we are that kind of people, but most of the work in these lines should be left to private charity, and our actual relief aid should be short-term and limited in amount. Furthermore, we must plan to finish programs. If we never get out of a country and continue to take on new ones, such as Morocco, Tunisia and Sudan, we will be stretched too thin for our resources.

We must soon give much thought to the coming legislation, not only in concept, but in format. I have about concluded that the whole Mutual Security Act should be rewritten and brought up to date. At present it is a most difficult piece of legislation to understand, with its amendments, exceptions, arbitrary regulations, and outmoded definitions. I realize that the leading members of the Congressional committees and the committee staffs have become used to it in its present form, but if we consult them fully, and receive White House backing in a new Congress, we may be able to get the desired results.

The question of tying the military part of the Mutual Security Program in with the Defense Department legislation must be carefully studied. Many members of Congress have urged this, and it has the advantage of showing this country that much so-called "foreign aid" is actually defense expenditure. If this is done, we might even want to include that part of the non-military program which backs up the military effort in countries like Korea, Taiwan and Viet-Nam, which would mean that we would shrink the program of economic aid, from which the military aspect is largely withdrawn, to a few hundred millions.

I realize that the results of the various studies which are contemplated may well require other drastic legislative changes, but that should not prevent our own immediate review of what I have discussed in this paragraph.

23. I hope this report doesn't sound like a general complaint. I know that many of the things I have touched on cannot be changed quickly, if at all. All government is inefficient, and this great sprawling bureaucracy of 8,000 people sprinkled all around the world, engaged in everything from building power plants and eliminating malaria to teaching teachers to teach, is very inefficient and

wasteful. I took this work on with no illusions. It is the most interesting I have ever been in, and the most rewarding in itself. I have enjoyed particularly working with you, and have appreciated your continuous courtesy and understanding of my problems. I have bothered you as little as possible, for I know the crushing burdens under which you labor. The chief thing I regret is that I have so far been unable to find a Chief Deputy. I am still looking for a top executive of prestige to come in, first in the operating field, and then, little by little, to take over the work so that I can suggest to you and the President that my Deputy succeed me, and I can go back to running a law office.

John B. Hollister[13]

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[13] Printed from a copy that bears this typed signature.

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24. Memorandum From the Chief of the International Branch, Bureau of the Budget (Macy), to the Director of the Bureau (Brundage)[1]

Washington, September 4, 1956.

SUBJECT

Suggested Issues for President's Citizen Advisers for Mutual Security[2]

As you requested,[3] I have compiled a list of key policy issues in the Mutual Security area which may be of interest to the President's Citizen Advisers.

1. *Policy issue.* Is the concept of "mutual security" still appropriate in a world increasingly populated by neutrals whose major concerns are economic and social, not military?

Discussion: It becomes increasingly questionable whether the concept of "mutual security" which seemed so appropriate for Western Europe several years ago is appropriate in 1956. At that time the dominant motivating factor was fear of aggression by Russia. Today many countries on the periphery of the Soviet bloc prefer to be neutral in the best sense of the word but would welcome aid from the U.S. If such countries did not have to "take sides" in order to qualify, the program would be more palatable psychologically and the Soviet bloc would lose a propaganda target in that future U.S. aid would be more positively slanted toward peace rather than preparation for war. If we moved away from the concept of mutual security and toward a concept of helping others help themselves to achieve economic and social objectives, then presumably we should have a somewhat less formal linkage between military assistance and other forms of U.S. aid. On the other hand, there is still a lot of sentiment within the Executive branch and in Congress to the effect that "if you are not for us you are against us". In other words, we would restrict our aid largely to those who are willing to stand up and be counted on our side.

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[1] Source: Eisenhower Library, CFEP Chairman Records.

[2] Chaired by Benjamin F. Fairless, the committee was formally commissioned by President Eisenhower on September 27, 1956, to examine and make recommendations on U.S. foreign assistance programs. The terms of reference, membership, and results of the committee's deliberations are in *Report to the President by the President's Citizen Advisers on the Mutual Security Program*, March 1, 1957 (Washington).

[3] No record of the request has been found at the Eisenhower Library.

2. *Policy issue*. Should U.S. officials have more or less freedom from legislative and administrative restrictions in the future?

Discussion: There has been considerable discussion lately within the Executive branch of the alleged fact that the Soviets have more freedom in negotiating trade deals and economic assistance within the free world than does the U.S. There is also continuing objection to legislative provisions with regard to the 50–50 clause,[4] the proportion of total funds that must be used for surplus agricultural products, etc. On the other hand some U.S. officials emphasize that in fact Soviet agreements reached with countries around the rim of the Iron Curtain seem to have very specific terms. In addition some of the alleged assistance that the Soviets were supposed to have promised on very liberal terms, such as the Aswan High Dam,[5] have not materialized. From another point of view the present mutual security legislation does include substantial sums which are not subject to normal legislative restrictions. Finally it should be emphasized that a growing number of U.S. officials feel that we have been much too loose in our making of political commitments for aid around the world.

3. *Policy issue*. Should our assistance programs be looked upon largely as an effective means of achieving short-time political objectives or primarily as a means of strengthening the underlying economic foundations of a country on a longer term basis?

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[4] First incorporated in Section 111 (a)(2) of the Foreign Assistance Act (Public Law 80–472), enacted April 3, 1948, and retained in subsequent aid legislation, the 50–50 clause provided that not less than 50 percent of all goods shipped abroad as part of a U.S. aid program would travel in U.S. merchant vessels; for text, see 62 Stat. 143.

[5] Project conceived by the Egyptian Government to control the flood waters of the Nile.

Discussion: Many examples could be given where U.S. aid has been used very freely as a "bribe" in order to persuade a country to vote on our side, to adopt sound but unpalatable internal economic reforms, or to counter Russian offers of economic assistance. As one reflection of such a policy, foreign officials in friendly countries frequently assert that the best way to get large amounts of U.S. assistance is to have a good internal communist scare, threaten to accept aid from the Soviet bloc, or fail to support us in the UN and elsewhere, etc. It seems that more and more we are getting away from the basic notion of using our assistance specifically for identifiable economic problems with the understanding that when these economic problems are solved the aid will stop. Is this trend a desirable one; i.e. should we in fact look upon economic assistance as a political weapon?

4. *Policy issue*. Once having established the pattern and concept of U.S. aid, will we ever be able to shut it off?

Discussion: The original Marshall Plan was developed on the assumption that at the end of four years we would "turn off the tap". Such a policy laid down at the start of the program permitted forward planning with more assurance; it also caused the other countries involved to plan their part of the mutual effort so they would be ready to carry on alone at the end of four years. This plan was, of course, interrupted by the Korean war and the development of a military assistance program in Western Europe. Since that time, however, there has not been built into our aid programs a policy of phasing out an aid program in a country at a specified future date, except in certain countries in Western Europe. Even though conditions will change in some countries for reasons that could not be foreseen, many people feel that at any given time we should have a specific joint plan in a country for eventually phasing out U.S. aid.

5. *Policy issue*. Under what circumstances should the U.S. provide assistance to maintain military forces in countries that are "economically capable" of maintaining the forces themselves, but which are unwilling to do so? (This is an important example of the problems involved in shutting off U.S. foreign aid.)

Discussion: We are devoting approximately 40 percent of our military aid program to maintaining, modernizing, and gradually strengthening forces in countries that are either reducing their own defense expenditures, or are making little or no attempt to increase their defense effort commensurate with their economic capacity. We usually continue to provide military aid long after economic aid is discontinued—in many cases without regard to economic ability to pay. Some small starts have been made towards reducing or eliminating this aid but they have been made difficult because of (1) the political consideration that we shouldn't cut off aid to any member of the military alliance (e.g., NATO); (2) psychological impact of U.S. reductions in defense expenditures; (3) use of military aid as a tool in negotiation for base rights; (4) the lack of a firm U.S. policy on providing "new weapons" (atomic and otherwise); and (5) the lack of an agreed-upon measuring stick for "economic capacity".

6. *Policy issue.* Under what circumstances should the U.S. encourage and assist another nation to expand its military program beyond its own capacity to support?

Discussion: A growing number of U.S. officials feel we have helped finance military programs in a number of countries which are much too large from the standpoint of (a) likelihood of external military aggression, (b) resources of country, and (c) alternative means of deterring potential aggressors. Corrective action has been delayed because of (1) a reluctance to seek modification of specific or implied political commitments, (2) lack of an effective procedure within the Executive branch to review force goals from other than a "military mission" point of view, and (3) continuing differences of opinion over the correct policy in several countries. The money involved is so large that this issue has very important fiscal implications.

Other issues that might be considered are as follows:

A. *Policy issue.* What adjustments should be made in both the level and the methods of technical assistance programs?

Discussion: Some people believe that for the uncommitted underdeveloped nations the technical assistance program offers more promising results over the long run than any other part of our Mutual Security Program. This approach calls for an expanded long-term effort to remedy through mutual security and other exchange programs identified critical shortages in skills. On the other hand, it is alleged that the U.S. Government is spreading its efforts so thin in individual countries that accomplishments are either too slow or not visible. Under this approach the efforts of other agencies, both public and private, would be taken into account, and the U.S. Government effort directed to targeted projects which could be quickly accomplished.

B. *Policy issue.* Should we put more emphasis on achieving U.S. policy objectives through multilateral channels?

Discussion. Underdeveloped areas have become increasingly insistent that multilateral agencies play an expanded role in economic development, and are quite annoyed over the negative attitude of the U.S. Government. Some U.S. officials feel this situation offers an important propaganda opportunity to the Soviet Bloc and that we should adopt a more positive approach. Partly as a result of the

President's visit to Panama,[6] there is renewed interest in expanding the non-political activities of the Organization of American States. Recent developments in Europe have resulted in intensified efforts to expand the role of NATO and so on. Those who oppose this trend of thinking argue that we inevitably lose control of U.S. funds contributed through multilateral channels, and sometimes argue that multilateral agencies are usually much less efficient than U.S. agencies overseas working on a bilateral basis.

C. *Policy issue*. Should the U.S. seek only very gradual relaxation of East-West trade controls and current restrictions on East-West contacts of all sorts, or should we actively sponsor a rapid removal of barriers between the East and the West?

Discussion. A growing number of U.S. officials doubt whether it is to our "net advantage" to continue the many types of controls now existing between the East and the West. Because of the recent change of Soviet tactics this is no longer an academic issue; in fact, we may appear to other nations to have erected an iron curtain against the Soviet Bloc. It is essential that the sharp differences within the Executive branch be resolved soon so that operating programs related to this issue can be carried out effectively without continuous dissention.

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[6] President Eisenhower participated in a 2-day meeting of Latin American Chiefs of State at Panama City, July 21–22, 1956. At the conference the President proposed the establishment of a special committee to recommend ways in which the Organization of American States could become a more effective instrument in economic, social, financial, and technical areas.

25. Report to the Operations Coordinating Board[1]

Washington, September 6, 1956.

SUPPLEMENTAL PROGRESS REPORT ON ACTIONS TAKEN PURSUANT TO NSC ACTION 1290–d

I. Introduction

The Board on July 11 "requested that a supplementary report be made by ICA to the Board within thirty days to:

a. Outline ICA organization, staff, and methods designed to carry out its responsibilities as set forth in NSC Action 1486–c, dated December 15, 1955.[2]

b. Give highlights of actions taken to expedite implementation of the NSC Action 1290–d program, giving sources of delay, if any, and measures taken to correct them."[3]

With respect to a, ICA staff undertook a study of major difficulties underlying the problems of implementing the 1290–d action, emphasizing the organizational factors involved in the coordination of the several agencies concerned. Section II of this Report, "Interagency Arrangements", beginning on page 2, contains a brief discussion of the history of the leadership function, providing a setting for the separate paper on the leadership role accompanying this report.[4]

ICA requested the other participating agencies and its own operating offices to prepare very brief responses to b above, indicating (1) accomplishments to date (August 1) and status of programs, including number of countries and officials involved, cases of success or failure, and specific examples if possible of accomplishments since May 1; and (2) actions taken to expedite implementation, particularly to overcome causes of delay, citing new organization, staff or methods. Section III of this Report, "Highlights of Accomplishments and Actions Taken to Expedite Action in 1290–d Programs", beginning on page 4, contains brief statements prepared by State, Defense, and USIA. . . .

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[1] Source: Department of State, S/S–OCB Files: Lot 62 D 430, Overseas Personnel III. Secret. Submitted under cover of a memorandum to the Operations Coordinating Board from OCB Executive Officer Staats, September 7. No drafting information is given on the source text.

[2] See footnote 14, Document 13.

[3] The July 11 request has not been found in Department of State files.

[4] Not printed.

General Progress through July 31

As noted in the first progress report,[5] each of the agencies concerned has taken appropriate steps to establish internal procedures for development of 1290–d programs, although in not all cases has personnel on a full-time basis been assigned responsibilities for central coordination of operations. All of the agencies have transmitted instructions to the field and otherwise informed operating personnel of the program.

Specific programs have been developed and approved for 21 countries. Funds were sought from the Congress to meet obligations in FY 1957, and although the over-all military assistance appropriation was cut substantially, there will in general be adequate funds available to meet presently contemplated program requirements. In the development of the FY 1958 program, much attention will be given to the future expansion of 1290–d programs.

II. Interagency Arrangements

History

NSC Action 1486–c of December 8, 1955 reads as follows:

> "Noted the report and the President's statement that he expected each responsible department or agency to implement its program of U.S. assistance to free world countries vulnerable to Communist subversion in developing and improving the effectiveness of their internal security forces:
>
> (1) Along the lines indicated in the report;
> (2) In accordance with approved policies;
> (3) Under over-all leadership to be assumed by the Director, International Cooperation Administration, pursuant to his responsibility for the Mutual Security Program;
> (4) In coordination with other responsible departments and agencies through the Operations Coordinating Board."

Upon receiving the above assignment, the Director of ICA, on December 12, 1955, designated Mr. John H. Ohly, Deputy Director for Program and Planning, as his representative in this capacity. Mr. Ohly had already been performing for the Director a number of coordinating functions, as that concerning military and economic programs, for example, and his office was considered the logical location of the new 1486–c responsibility within ICA. In January 1956 Mr. Ohly proceeded to develop working relationships with designated contacts in the other agencies. Throughout most of the period covered by this report, Mr. Ohly has personally carried out the coordinating function, using his staff on occasion, and working through designated personnel in other agencies.

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[5] Not printed.

Difficulties

It soon became apparent that the implementation of 1290–d in its broader sense involved many activities of all of the major agencies of the U.S. government operating overseas. Of course these agencies have many other purposes than simply the preservation of internal security, and it becomes difficult to deal with the isolated problem with which Action 1486–c is concerned. It is also clear that there is not a simple, separately identifiable 1290–d program but rather a mixture of a great variety of things which, in some cases directly and in other cases only very indirectly are likely to make some contribution toward the improvement of internal security in another country.

Organizational Problem

The above problem called for the development of special procedures and mechanisms for inter-agency coordination under, to some degree, central direction. The OCB working groups for each country carry out certain responsibilities, but cannot perform adequately the necessary program planning, evaluation and reporting as well as the day-to-day resolution of conflicts, and general supervision. While the major organizational and leadership problem is as yet unresolved, interagency matters are being handled on an ad hoc basis with some success. Until decisions on these major questions are reached, however, NSC Action 1290–d will not be fully met.

III—A. International Cooperation Administration

Highlights of Accomplishments and Actions Taken To Expedite NSC Action 1290–d Programs

1. Accomplishments and Status of ICA Civil Police Program

Since the approval of Action 1290–d, ICA has:

(a) Initiated new civil police programs in eight countries (Laos, Cambodia, Viet Nam, Thailand, Philippines, Korea, Greece and Guatemala) and substantial expanded pre-1290–d programs in two countries (Indonesia and Iran).

(b) Completed detailed surveys of internal security forces in Bolivia, Guatemala, Greece, Laos and Cambodia, as a preliminary step to program initiation.

(c) Provided training to 620 foreign police officials in the U.S. or third countries.

(d) Assisted in arranging or participated in the training of about 11,800 indigenous personnel in their own countries.

(e) Delivered $2,402,418 worth of civil police commodity assistance. This includes such items as jeeps, radio communications equipment, weapons, identification and laboratory equipment and equipment for training schools, etc.

2. Sources of Delays and Steps to Overcome Them

(a) *Acceptance of Program of Host Government*

After OCB has approved the initiation of a 1290–d program, agreement must be secured between the host government and the United States concerning the nature and extent of the activities to be undertaken cooperatively. This usually involves both political and technical negotiations, which may require substantial time. Most of these delays are inherent in the governmental processes and internal problems of the host country. They sometimes also relate to the relative priority which the American Ambassador attributes to the 1290–d program and to other important negotiations which may be simultaneously involved in the relationship between the U.S. and the host country. Once the top political agreements are reached, technical negotiations usually proceed forthwith.

Overcoming these delays requires continuing interdepartmental review of the progress of negotiation of OCB approved programs, and where necessary, more specific State Department instructions to the Embassy involved.

(b) *Recruitment of Police Experts*

The supply of American civil police experts who are technically and personally qualified to serve as advisers to foreign police forces is very limited. Personnel shortages have delayed the full implementation of 1290–d programs in certain countries. Delay has also resulted from the mechanics of processing candidates for police positions. ICA now has 30 such technicians serving in civil police activities, but about 40 more are required within the next 90 days for existing vacancies and anticipated new positions.

ICA has taken the following steps to expedite its personnel recruitment:

(1) An intensive recruitment drive has been initiated, in cooperation with other U.S. Government agencies and various American professional organizations in the police field. Additional funds have been made available by ICA to finance recruitment travel and a substantial proportion of the time of the staff of ICA's Civil Police Division is being devoted to recruitment. This intensive recruitment effort should increase the number of qualified experts who are available for overseas assignments.

(2) A small "civil police pool" has been established in ICA, which will be made up of police experts, already recruited and in

training in Washington, available for dispatch to any country as soon as necessary negotiations are completed. The availability of this staff should very substantially shorten the delay between the completion of negotiations and the arrival of the U.S. staff.

(3) A "ready reserve" is also being established by ICA. This group will consist of police experts who have signified their general interest in the civil police program, but who are not immediately available for existing assignments. These individuals will be processed by ICA's Personnel Division up to the point of actual employment, so as to minimize the time required to send them overseas when overseas assignments develop for which they are qualified and available.

(c) *Administrative Processes*

As is true in any large organization, certain paper work is necessary to authorize ICA funds for employment of staff, for financing of training and for procurement of commodities. Civil Police programs have, in general, followed the normal internal ICA documentation and authorization processes. This has sometimes delayed the implementation of 1290–d programs.

The Director of ICA has instructed all ICA staff to give priority treatment to all administrative actions involving 1290–d programs. This should speed up the internal processing of the necessary documentation.

3. *Examples of Civil Police Programs*

Laos—In Laos, the Gendarmérie and Police have been consolidated into a single police service. This force has increased in strength from 1021 to 2830; it has been uniformed and equipped and is currently undergoing training in facilities constructed from ICA funds. A police radio communications system has been installed. Remote areas are now receiving police coverage for the first time.

Indonesia—The pre-1290–d program in Indonesia has been expanded by increasing the personnel of the Police Advisory Group from 6 to 10, and by increasing the participants (trainees) from approximately 28 to 61 per year. The 1957 program amounts to $1,500,000 for commodities which includes arms, transportation, communications, and laboratory equipment. The strength of the Indonesian National Police Force is 105,000 men, including the Police Mobile Brigade of approximately 20,000 men, a para-military organization primarily concerned with guerrilla and other anti-resistance activities. ICA technicians are now advising the police in functions of communications, investigations, patrol, records and identification, logistics, training, maritime police and para-military activities. The National Police has had a stabilizing influence in the Indonesian political situation. The ICA Police Advisory Group has made a significant contribution to the efficiency of that force.

ICA Internal Organization and Staffing for Civil Police Programs

In September 1955, during the earlier OCB discussions of what subsequently became Action 1290–d, ICA established a Civil Police Branch in its Public Administration Division. With the approval of 1290–d this Branch was elevated to Divisional status and its staff substantially expanded. Organizationally, the Civil Police Division, which has a staffing pattern of 19 positions, has the same organizational status as the ICA divisions which have responsibility for such major ICA programs as public health, education and public administration.

In staffing its professional civil police positions in Washington and overseas, ICA attempts to recruit personnel who have:

(a) sound training and experience in police work, or related activity, with appropriate specialized skills;
(b) if possible, some experience overseas in police or related fields (e.g., military government, intelligence, etc.);
(c) personal qualifications which indicate probability of successful adjustment in overseas work;
(d) language facility.

Illustrative of the ICA staff in this field is the following summary of the qualifications of the three most senior members of the ICA Civil Police Division:

1. *Byron Engle, GS–15, Chief of Division*
Former Director of Personnel and Training of a large metropolitan police department; also, service in ranks and officer positions. Nine years' service overseas in police advisory work in Middle East and Far East, including service as Chief, Police Administration, Far East Command, in charge of Japanese training under General MacArthur's command. Graduate of FBI National Academy.
2. *Charles C. Oldham, GS–14, Deputy Chief of Division*
Former Chief, large state police organization. Also served in ranks and officer positions in municipal police department. Experienced as instructor, college level police training. Has LL.B. degree.
3. *Arthur E. Kimberling, GS–14, Chief, Far East Branch*
Former Chief, Louisville Police Department. Served overseas as Police Administrator, Far East Command, engaged in Japanese police reorganization. Last 5 years served as Chief, Police Service, Federal Civil Defense. 33 years police experience.

III—B. Department of State

Highlights of Accomplishments and Actions Taken To Expedite NSC Action 1290–d Programs

1. Accomplishments and Status

(a) The State Department is now concerned with the implementation of the 1290–d Program in 18 countries and initial steps are being taken in two additional countries. At the same time, missions in an additional eight countries have submitted or are submitting data to be used in preparing new 1290–d analyses.

(b) The State Department and American Missions in the field make use of their regular personnel in implementing the 1290–d Program. No new personnel has been engaged in connection with the program. However, the burden of work resulting from the program is distributed fairly widely in both the Department and the field.

(c) The action responsibilities falling to the Department of State under the program are largely diplomatic in nature and require action in the field by our Ambassadors and his chief assistants. This type of activity may be called "personal diplomacy" and requires that the Ambassador and his assistants take advantage of every opportunity to persuade foreign officials in 1290–d countries of the necessity and desirability of their countries undertaking activities of the nature specified in the recommendations in the 1290–d papers. Examples of this are (a) Ambassador Cannon[6] at Athens was most active with Greek political personalities in connection with 1290–d recommendations during and after the elections, (b) Ambassador Muccio[7] and his staff in Iceland have been constantly concerned with the 1290–d matters during the present situation, and (c) Ambassador Bishop[8] in Thailand has been active in support of the 1290–d objective there as have been our Ambassadors in Vietnam, Laos and Cambodia. To cite only two more, Ambassadors Chapin[9] in Iran and Cumming[10] in Indonesia have likewise been alert in their diplomatic activities to further 1290–d objectives. In the Department of State, similar activities have been carried on in all political areas with Assistant Secretaries and their staffs including 1290–d problems in their consideration of political relations with the countries under their charge. An example of this has been the continuous efforts of Mr. Holland, his ARA staff, and Mr. Barnes of U/MSA to find appropriate ways and means of financing 1290–d objectives in Bolivia.

(d) Substantive accomplishments since May 1 are hard to delineate since personal diplomacy of the type involved does not readily lend itself to evaluation as to substantive results. However, it is indicated that the 1290–d program is being explained and promoted by our diplomatic establishments in the countries concerned to a greater degree with every passing week.

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[6] Cavendish W. Cannon.

[7] John J. Muccio.

[8] Max W. Bishop.

[9] Selden Chapin.

[10] Hugh S. Cumming, Jr.

2. Action Taken to Expedite Implementation

The following actions have been taken by the State Department to expedite implementation of the 1290–d Program:

(a) Ambassadors visiting Washington or stopping in Washington en route to a new post in a 1290–d country have been briefed thoroughly on the 1290–d Program and informed of the importance that the Government ascribes to its implementation. Senior officers of Missions in 1290–d countries, when in Washington have been similarly briefed. The Missions in the field have been kept alert on 1290–d programs by cables, surface instructions and informal letters. Departmental officers visiting the field have discussed 1290–d problems with officers at missions in 1290–d countries.

(b) Sources of delay. The chief source of delay was in the beginning the time required for top secret communications to reach certain 1290–d countries and similarly the time required for communications to get to Washington from the field. This delay is being met by using lower classifications when possible for communications other than cables. There have been delays arising out of difficulties in arriving at agreement in Washington between 1290–d agencies (Bolivia funding question). Efforts have been made to eliminate such delays in the future by taking the problems immediately to the OCB luncheon meeting for resolution.

(1) No new organization in the Department of State is contemplated. The implementation of 1290–d Programs is vested in the area Assistant Secretaries and their chief assistants.

(2) Procedures in the field are determined by the Chief of Mission in accordance with his standing instructions.

(3) Departmental officials are aware of the importance which the Government attaches to the 1290–d Program.

(c) The Under Secretary of State has stressed to Departmental officials the necessity to expedite implementation of the 1290–d Program.

III—C. Department of Defense

Highlights of Accomplishments and Actions Taken To Expedite NSC Action 1290–d Programs

1. Accomplishments and Status

a. *Progress at the Country Level*

(1) Of the 21 OCB approved programs DOD has a primary but not sole, responsibility in 18. Discussions have been undertaken in these 18 countries leading to proposals for legislative changes, establishment of government agencies and development of military and

civil attitudes which strengthen internal security. It is too early to assess the actual accomplishments of these efforts.

(2) From these 18, two (2) programs requiring funding have been submitted for inclusion in available FY '56 monies; however, these two (2), arriving late, have been merged with funding programs of FY '57. To date there are eight (8) programs submitted for funding from FY '57 money, however, none have yet been cleared by the DOD, ISA Comptroller.

(3) DOD responsibilities also require the inclusion with the MDAP of certain training and weapons in furtherance of some of the country 1290–d courses of actions. Data available has not yet been sufficiently scrutinized to ascertain compliance with the 1290–d aspects to be included in the MDAP. However, it is a reasonable assumption that in these respects 1290–d DOD/MDAP actions are going forward in at least five (5) countries.

(4) DOD responsibilities also require actions not necessarily needing money. Such actions run the gamut from planning for a contingency, to reexamining force levels, to development of attitudes in foreign civil and military, to encouraging the South Vietnamese to pay their own way. No data is available on the status of these actions.

b. *Personnel Included*

(1) DOD personnel at home and abroad handle 1290–d matters as additional duties, therefore no added personnel costs are involved. Programs submitted so far for payment in FY '57, though not yet screened and approved by the DOD comptroller, total as of 15 July approximately $4,015,000.

2. Actions Taken to Expedite Implementation

a. *Sources of Delay, If Any, and Measures Taken to Correct Them*

Delay for DOD responsible action is chiefly due to:

(1) Time required to formulate requirements and secure approval along the arduous path from local country agency representatives, to country (Ambassadorial) team, to coordinating at unified command level, to executive agent (D/A), to ISA.

(2) Time lost in waiting for Washington leadership (i.e. follow-up on all actions to determine hold-ups).

b. *Measures Taken to Correct Delays*

(1) Since 3 July 1956 one officer in OSD has been devoting full time to 1290–d programs; he has been assisted by the part time services of designated 1290–d points of contact in the Services, the JCS and ISA. In the field and in Unified Command Headquarters personnel have been designated to follow 1290–d affairs specifically.

(2) On 14 March DOD issued an instruction on the implementation and coordination of the 1290–d program in which the Secretary of Defense directed that once such programs are approved the military departments in coordination with other interested agencies and offices will without regard to existing priorities provide military equipment to military and selected para-military or police forces.

c. *Agency's Plan to Further Expedite Implementation*

The DOD plans to further expedite implementation when the ICA leadership mechanism is determined and announced.

III—D. United States Information Agency

Highlights of Accomplishments and Actions Taken To Expedite NSC Action 1290–d Programs

1. Accomplishments and Status

(a) USIA is carrying out assigned tasks in 15 countries. It is not feasible to specify the number of officials involved in carrying out 1290–d activities as such or the cost of activities underway, because virtually all USIA activities in support of 1290–d programs are part of the Agency regular, continuing program.

(b) The Agency is conducting information activities designed to increase awareness of the Communist threat among leaders, intellectuals, the security forces or the public at large in Afghanistan, Cambodia, Guatemala, Greece, Iran, Iraq, Japan and Iceland. In Afghanistan, because of the attitude of Afghan officials, USIA is limited to personal contact work in trying to influence leaders, but has had some success recently in using "calculated leaks" of anti-communist Embassy materials to high Afghan officials. The Agency is also handicapped in Cambodia by the government's neutrality policy. In Iran, however, the Agency has the cooperation of the Iranians in a rather extensive special program for indoctrination of the Armed Forces, using films, local military radio, and printed matter. In Japan the Agency's entire regular program is heavily keyed to the 1290–d objective of countering communist influence among intellectuals and labor. A vigorous but discreet campaign to promote 1290–d objectives is underway in Iceland.

(c) In Laos and Vietnam the Agency is assigned responsibility for increasing public support for the internal security forces. In these countries the Agency furnishes the military forces and propaganda agencies with posters, pamphlets and other anti-Pathet Lao materials regularly, reaching the public as well as the army, but the present political situation in Laos has necessitated a review of Agency methods and objectives which is now underway. Similar activities are conducted in Vietnam, where 1,000 army personnel have completed an anti-communist English-language training course. In Bolivia the Agency has found it undesirable to take direct action to increase public support for the unpopular security forces, because to do so would reduce USIS effectiveness in supporting other policy objectives. A general anti-communist program directed to the public is carried out.

(d) Since May 1, 1956 the following significant, and illustrative, actions have been undertaken by the Agency:

(1) Assignment of an experienced officer to USIS Teheran to supervise the special program for indoctrination of Iranian armed forces.

(2) Intensified the Iranian indoctrination program by extending use of local military radio stations, production of indoctrination films, and pamphlets for large-scale military distribution. (Initiated)

(3) In Iraq, commissioned the writing of anti-communist books for intellectuals; established English-teaching courses for Iraqi military and policy personnel, using anti-communist materials; presentation of anti-communist book collection to 200 libraries. (Initiated)

(4) In Guatemala, initiated weekly film programs at military bases.

(5) In Thailand, completed final phase of indoctrination program for Thai armed forces; continued monthly packaged follow-up in all provinces.

2. *Actions Taken to Expedite Implementation*

(a) Because USIA activities in support of 1290–d programs are part of the Agency's regular program, and are not separable from normal Agency activities, there are no special causes of delay or administrative problems in implementation.

(b) Since May 1, Agency field posts have been informed of the program by circular despatch, and instructed to coördinate their implementation of 1290–d actions with the Chief of Mission and other agencies in the field. Also since May 1 the Agency has designated its Deputy Chief of Policy as responsible for over-all cognizance of Agency 1290–d activities. A problem exists with respect to implementation of action assigned to the Agency in Bolivia, as noted in paragraph 1. c.

(c) The Agency's Board Assistant advises policy and program officers with regard to the purpose and intention of the 1290–d program, for their guidance in giving direction to Agency activities in appropriate countries.

(d) Country desk officers responsible for country policies and programs take account of 1290–d objectives and tasks in the Agency's backstopping of field programs.

(e) Budgetary provision for activities in support of the 1290–d program is integrated with budgets for regular programs.

26. Memorandum of Discussion Between the President's Citizen Advisers on the Mutual Security Program and the Secretary of State, Washington, October 25, 1956 [1]

Mr. Dulles stated that the problem of foreign aid was far and away the most important single aspect of our foreign policy. That policy was designed to meet the threat derived from the Soviet rulers who hoped to gain such a great power advantage that it would enable them to defeat the United States in battle, if necessary, or, far more desirable, cause the United States to surrender without a struggle because a struggle appeared to be futile. The tactics the Russians hoped to use were similar to those employed by chess players. The aim of a chess game is for one of the players to take his opponent's king. Once he has announced "checkmate", the king is his without the necessity for completing the remaining plays. Russia hopes to gain a position of such superiority that war won't be necessary.

Our present foreign policy is designed to prevent three things. It is designed to deter an atomic attack. The United States is subject to direct atomic attack and must have the retaliatory capacity to carry destruction to a would-be attacker. Our foreign policy is also designed to check the Soviet bloc's enlargement of its area of dominion. An increasing expansion of its area would cause an increasing risk for us since the bloc would gain additional manpower and materials as well as strategic locations. The expansion of the Soviet bloc has gone as far as can be tolerated. Finally, our foreign policy is designed to break up the present Soviet bloc because in the long run a purely defensive role never succeeds. We are trying to force the Russian rulers to concentrate on their own problems; we're giving them some homework to do. Our so-called foreign aid program, which is really not foreign aid because it isn't aid to foreigners but aid to us, is an indispensable factor in carrying out our foreign policy.

The effectiveness of our deterrent power against atomic attack is dependent upon our bases around the world. Russia can launch attacks upon the vital parts of our nation from its own shores, but we can't launch attacks upon the vital parts of Russia from our shores. The distance the United States would have to cover is almost twice as great as that which Russia would have to cover. We must, therefore, have bases to give us propinquity to Russia. In addition, we must have bases to give us diversification, so that if one launching area were wiped out by an initial assault, we would still have other areas from which to operate. We have to remember that those countries which let us have bases are taking a considerable risk.

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[1] Source: Eisenhower Library, Fairless Committee Records, 1956–1957. Secret. The committee members were Benjamin F. Fairless (chairman), Colgate W. Darden, Richard R. Deupree, John L. Lewis, Whitelaw Reid, Walter Bedell Smith, and Jesse W. Tapp.

The Sino-Soviet bloc has been expanding apace since 1945. The number of people under its rule has increased from 250 million people to 800 million. The culmination of the expansion of the Sino-Soviet bloc came with the attack on Korea. The mutual security system which has come into being as a result of that expansion provides, in effect, that the parties pledged to it will stand together in event of attack, so that they won't be picked off one by one. We have bilateral and multilateral treaties with 42 countries, and the Baghdad Pact brings us in close relationship with two more. From a military as well as a political view, however, a mere pledge is not sufficient; it must be reinforced by forces in being. Originally, the peoples of the world did not feel this way, but the Korean situation changed their attitude. Today we must meet the fears of the people of other countries. It is not enough to have liberated them; it is necessary that we give them protection. To do this we must have forces in being sufficient to deter or at least hold back attack. NATO is that type of force. We must also have forces to ensure internal stability and make costly outside attack.

Our total annual expenditure on security has been about $40 billion annually. Of that approximately ten per cent, or $4 billion has gone for aid. Of that about 85 per cent has been used to assist economically and financially burdened countries in the maintenance of military establishments and in defense support. In Europe at present aid for defense support is insignificant. What little is being given goes primarily to Spain and Yugoslavia. In Spain we have the problem of bases which serve as an alternative to those in North Africa. In Spain we are giving both military and economic aid. We have worked a long time in Yugoslavia to prevent Soviet expansion there. Now that the Soviets are making an economic thrust there, we must keep our hand in because Yugoslavia provides a notable example of national independence in Eastern Europe. Our program in Europe including NATO amounts to about $1 billion for the coming year.

In the coming year we expect to spend $700 million in the Middle East. That area includes the nations running from Turkey through Pakistan. To Turkey and Pakistan we are giving primarily military and defense support aid. Through the Baghdad Pact we have ties with Iraq and Iran, though we are not members of the Pact. Iran which we rescued from the Communist Tudeh party probably will not be a permanent burden to us. Turkey is about the most dependable ally that we have in the world today. In both Turkey and Pakistan, however, there are economic problems to be solved which result partially from the fact that our military experts believe it is necessary for both countries to have military establishments considerably larger than their economies can support.

Our toughest problems are in the Far East. In that area we have disconnected peninsular and island positions in which we are interested ranging from Korea, Japan, Okinawa (the defensive position there is ours entirely), Taiwan, and the Philippines through Southeast Asia. We have a collective security arrangement for that particular area under SEATO. In the Far East generally, we are spending about $1.6 billion. Japan is carrying most of the burden of its military establishments.

Communist China is still building up her forces and still following the Stalinist policy of the use of force. There have been frequent violations of the Korean armistice, and there are continued threats to take Formosa by force. The Vietminh forces [2] are being built up. All of these areas have either recently been zones of hostility or threaten to become so.

The problem of defending the areas in which we are interested is very difficult. It can be said that defense of them could and should be managed on a cheaper basis. Some say that we don't need so many troops in Korea, that our air bases on Okinawa are sufficient to defend Korea. We have to remember, however, that we have a psychological problem, that of morale, to face. The South Koreans live in an area which has already been devastated. If they thought that the United States was abandoning them, they would collapse and could then be taken over internally. We sometimes have to do things that are apparently not rational, bearing in mind the impact of what we do on the people concerned.

In answering the question, are the things we're doing in the Far East worth the money that we're spending on them, we must remember that there would be disaster if the western Pacific fell into hostile hands. In developing our foreign policy we enunciated in the Monroe Doctrine our stand against expansion by other countries into the Western hemisphere. Later we found it necessary to extend that policy against expansion when we discovered that we couldn't afford to have the Atlantic Ocean dominated and then more recently the Pacific Ocean. Imagine what it would be like if we couldn't hold Japan, for then surely Korea and Formosa would slide into the Communist orbit. Gradually expenses in Korea can be brought down, but the will to resist must be retained.

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[2] Vietnamese Communist forces under the leadership of Ho Chi Minh.

So far all but about $600 million worth of foreign aid has been accounted for. $400 million of what remains is straight economic aid for countries with whom we have no security arrangements such as India and Indonesia. India is the largest, non-captured, non-Communist country in the Far East. Nehru is conducting a strong effort to prevent the country from going Communist, though some of the trends in India are socialistic. We are giving her between $50 to $60 million this year. Indonesia is in a rather desperate economic position, and we can't let her fall by the wayside because if we did our communication line between Japan and Australia would be cut. $200 million is going to Indonesia.

Some of the countries needing economic aid are receiving assistance multilaterally through the United Nations, but the problem is beginning to assume tremendous proportions. We are trying to solve part of it through disposal of our agricultural surpluses under P.L. 480 and use of the resultant local currency for aid projects. The bulk of the local currency gained is being circulated in 30 year loans. A complication in disposing of surplus agricultural commodities is the need to avoid cutting into the normal markets of a country. The administration of the program is extremely difficult and has left the State Department friendless. Grain raising countries want the Department to encourage the selling of less while grain consuming countries want the Department to encourage the selling of more.

Those administering the entire aid program are well aware of its imperfections. The Prochnow Committee has been concerned with the failure of planners to have studied adequately the economic effects of the military program before launching it. In Turkey, for instance, many people were taken out of the consumers goods production line for military service or military connected occupations, so that they still remained consumers but were no longer producers. Turkey faces serious inflation. It is possible that the same pattern may evolve in Spain.

Another matter of concern in the program is the tendency of the military aspects to become progressively more expensive. This is due in part to the cumulative cost of maintenance and to the increased cost of weapons. Recipient countries always desire new weapons rather than castoffs. We should do more to create a greater dependence on our strategic weapons, that is largely on atomic weapons. To do so might lead to economies. There is a great lack of acceptance in the countries with which we have mutual security pacts that the next war is going to be an atomic war. First of all, none of these countries wants to be an atomic target; secondly, these countries feel that the United States might not be willing to wage an atomic war because it would redound on the United States. Any atomic weapons, of course, would have to be in the hands of the United States rather than its allies under present laws.

Mr. Fairless asked how much we could afford to spend on an aid program and how long we could afford to spend it. Mr. Dulles replied that some say our economy has prospered despite the program, though we haven't, of course, reduced the national debt. What had to be remembered was that only ten per cent of the security budget was being considered, though it was perhaps the most important ten per cent. The question that needed answering was could we afford to spend $40 billion. Mr. Fairless commented that the aid should have the proper label. Mr. Dulles went on to say that since the aid money is spent in the United States, it is a stimulus to American business.

Mr. Deupree said that the Advisers had been told that there was $3 billion in gold going out of the country. Mr. Dulles said that he would want to question the views of the person who made that statement. The figure, he felt, was partly attributable to the growing investments by foreigners. The figure set up for our required gold reserve was done on the basis of a hypothetical contingency, that is a sudden gold demand. We should look at ourselves in this situation as a bank. No bank attempts to keep itself entirely liquid, and no bankers whom he ever knew were made unhappy by increased deposits. Mr. Deupree said that increased deposits necessitated increased reserves. He then asked whether the most expensive item in our security was the pay and expenses of our armed forces abroad. Mr. Dulles mentioned that our largest expenditures abroad were tourist expenditures.

Mr. Lewis wanted to know why money wasn't available for investment in the countries of foreign investors. Mr. Dulles replied that citizens of those countries had more confidence in the United States than their own countries. He added that their countries could, if they wanted to, stop the outward flow of investment capital. Mr. Lewis commented that these countries which had its citizens investing abroad were then pressing us for aid. Mr. Dulles explained that we were not being pressed for aid by those countries which were investing in the United States, such as Great Britain and France. Mr. Lewis wanted to know why something couldn't be done about Great Britain's trading with China and France's failure to meet her NATO commitments. Mr. Dulles said it was difficult to control those matters externally. Mr. Lewis pointed out the softness of the pound sterling and the French franc. Mr. Dulles said that they were soft, that Britain was limiting its flow of gold but that France was finding it difficult to do so.

Mr. Reid wanted to know if we reduced our forces, whether it would be reasonable to assume that we could use our strategic atomic weapons without retaliation. Mr. Dulles replied that it would be a hazardous assumption, that it would be dangerous to let the idea get about that we were going to withdraw our forces, though we had withdrawn some forces in Korea and perhaps might be able to streamline our forces in Germany.

Mr. Deupree asked how much our economy could afford to spend on the whole military picture. Mr. Dulles replied that the fortress of America concept was no longer valid, that we had to have forces along the periphery of the Soviet orbit, that there was no point in saving one dollar in the aid program when it would mean spending ten dollars for the military establishment. Mr. Lewis wanted to know for what length of time we would have to continue our present expenditures in the countries along the line from Korea to Turkey. Mr. Dulles replied that he didn't know, that there were recently much more encouraging signs of things beginning to crack on the inside. Khrushchev[3] in his March letter stated that it had been impossible to change the policy of Stalin as long as it had been successful. When the policy was changed, it started a trend. The denial of successes to the Stalinist policy was due to the policy that we've been pursuing, but that policy hasn't served its day yet. We need it as long as we have a hostile threat to face. By and large, it is vitally essential that we shouldn't let our policy falter just as Russia is beginning to cave.

Mr. Lewis asked what yardstick was being used in determining the amount of aid that was to be given to Yugoslavia and Spain. Mr. Dulles replied that we had no pact with Yugoslavia, that our aid was largely agricultural surpluses administered under P.L. 480. In the case of Spain, the main consideration was our need for military bases there. Mr. Lewis wanted to know whether Russia mightn't regard United States aid to Yugoslavia as a help to Russia. Mr. Dulles replied that he didn't think so. The United States wasn't sending jet planes to Yugoslavia, though it wanted them. Requests from Yugoslavia, generally, were declining. Tito was most useful as an exhibit.

Mr. Dulles concluded with a few brief comments on the situation in Poland and Hungary and summed up by saying that the blood of the martyrs was the seed of the church.

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[3] Nikita S. Khrushchev, First Secretary of the Communist Party of the Soviet Union.

27. Memorandum of Discussion at the 301st Meeting of the National Security Council, Washington, October 26, 1956 [1]

[Here follow a paragraph listing the participants at the meeting and item 1.]

2. Report by the Interdepartmental Committee on Certain U.S. Aid Programs (NSC 5610;[2] NSC 5611, Part 2;[3] Memo for All Holders of NSC 5610, dated August 9, 1956;[4] Memo for NSC from Executive Secretary, same subject, dated October 19, 1956;[5] NSC Actions Nos. 1486,[6] 1560[7] and 1607[8])

In introducing Assistant Secretary of State Prochnow, Mr. Jackson referred to the recent article by Drew Pearson[9] on the activities of Secretary Prochnow and his committee. The President expressed great irritation, and said that he believed that we ought to get the Federal Bureau of Investigation to study this leak. He remained astonished that such leaks continued to occur. It seemed to him likely that some "clerk" far down the line in some department or other must talk to people like Drew Pearson. The President observed philosophically that he supposed that if one were engaged in intelligence activity there was reason to read Drew Pearson's column, but he could think of no other valid reason.

Secretary Prochnow opened his report to the Council with a brief comment on the Pearson statement, which he said was totally without foundation.

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Prepared on October 26 by Gleason.

[2] NSC 5610, "Report by the Interdepartmental Committee on Certain U.S. Aid Programs," August 3, 1956, is in Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5610 Series, and *ibid.*, OFD Files: Lot 59 D 620.

[3] NSC 5611, "Status of National Security Programs as of June 30, 1956," is *ibid.*, S/S–NSC Files: Lot 63 D 351. Part 2, Status of Mutual Security Programs as of June 30, 1956, was submitted to the NSC by the International Cooperation Administration, September 17.

[4] Not found in Department of State files.

[5] Not printed. (Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5610 Series)

[6] See footnote 14, Document 13.

[7] NSC Action No. 1560, concerning military assistance and supporting programs, was taken at the 285th meeting of the National Security Council, May 17, and approved by the President, May 24. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1956)

[8] NSC Action No. 1607, concerning U.S. objectives and courses of action in Korea, was taken at the 297th meeting of the National Security Council, September 20, and approved by the President, September 25. (*Ibid.*)

[9] Newspaper correspondent, author of the newspaper column, "The Daily Washington Merry-Go-Round."

After a brief description of the work of the interdepartmental committee, Secretary Prochnow outlined the principal conclusions of the committee's studies. These conclusions dealt, first, with the overall costs to the United States of the assistance programs to the six countries which were regarded as most critical. He said that this program would amount to $2 billion a year through 1960. His second conclusion dealt with the ability of the six countries in question to support their military programs. The Prochnow Committee concluded that it was clearly beyond their ability. The third conclusion dealt with the military capacity of these six countries. It was concluded that, even taking into account our military assistance, the military capabilities of these countries had not been greatly enhanced when compared with the capabilities of the Soviet bloc. The fourth conclusion dealt with economic growth in the six countries. The Prochnow Committee studies concluded that, even with our large economic assistance, economic growth in these countries had been very slight indeed. The last conclusion dealt with possible obstacles which would confront the United States if it attempted drastically to change these assistance programs. The Prochnow Committee concluded that these obstacles would be serious.

After dealing with the conclusions of the committee, Secretary Prochnow outlined alternative courses of action which were open to the United States. These were four in number. First, we could go along present lines at a cost of about $2 billion a year through 1960 for the six chief problem countries. Secondly, we could attempt to reduce the burden on the U.S. economy by cutting back the economic assistance programs to these countries. Thirdly, we might contemplate the alternative of attempting to reduce our support of the military establishments of these countries. Fourthly, we might elect to increase the existing level of our economic assistance to these countries. (In each instance Secretary Prochnow commented briefly on the pros and cons to be anticipated in each of the above four alternatives.)

In concluding this section of his report, Secretary Prochnow indicated that at the conclusion of their work one or two members of his committee had raised the question as to how far the United States should build up indigenous military forces over and above the level required to ensure internal security.

As the third and final portion of his report, Secretary Prochnow summarized the chief issues raised by his report, putting them in the form of the following three questions:

1. Were the original premises underlying our foreign assistance programs in these six countries keeping abreast of the changes which had occurred since these premises were originally adopted?

2. Were our aid programs conceived and carried out in such fashion as to force us into a posture of inflexibility?
3. Do we have the best possible balance between our military and our economic assistance programs?

In conclusion, Secretary Prochnow expressed the hope that the report and work of his committee would prove helpful in the achievement of policy decisions by the National Security Council. The President thanked Secretary Prochnow, and said that all the members of the Council were deeply obligated to him and to his committee.

Mr. Jackson then called on the Director of the International Cooperation Administration for any supplementary observations he might wish to make on the foreign assistance programs.

Mr. Hollister said that he would speak briefly and generally. He did wish to emphasize that the factors which Secretary Prochnow had singled out as applying to the six critical countries also applied in some degree to the entire lot of fifty or sixty countries in which the International Cooperation Administration was operating. Furthermore, the questions posed by the so-called Prochnow Report could only be answered after adequate study by all the responsible agencies straight across the board. No such adequate study had yet been made.

Mr. Hollister then referred to the Fairless Committee and to the Senate Committee which had been set up to study our foreign aid programs.[10] He indicated his belief that these committees were proceeding effectively in pursuit of their objectives.

Mr. Hollister then indicated his belief that the best help he could give the Council at the present time was to repeat the conclusions which had been set forth in the status report on the Mutual Security Programs as of June 30, 1956 (Part 2 of NSC 5611). This report had, of course, already been sent out to the National Security Council, but Mr. Hollister doubted whether the members of the Council had found time to read such a long report. Nevertheless, what had been said by way of conclusion in the status report would be more helpful than any new formulation. Accordingly, Mr. Hollister proceeded to read the page and a half of conclusions of Part 2 of NSC 5611. When he had completed his reading, he stated that essentially he was trying to point out to the National Security Council that the studies by the Prochnow Committee really constituted only the first, though fine, step in what must be a continuing study of the problem of foreign assistance.

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[10] The Senate Special Committee to Study the Foreign Aid Program, established July 11, 1956, by Senate Resolution 285, 84th Congress. Chaired by Senator George, the committee was composed of the full membership of the Foreign Relations Committee and the chairmen and ranking minority members of the Committee on Appropriations and the Armed Services Committee.

The President then observed that a very important question would have to be answered by the State Department. This was to find out how far the United States could go in reducing its foreign assistance expenditures, given the fact that the countries we were aiding had come to regard these expenditures as commitments made solemnly by the United States. The President went on to observe that most of us here present were already convinced that our military assistance program world-wide was too large. The problem, however, was how to reduce the size of this program without inducing disastrous political repercussions.

Mr. Jackson then called on Assistant Secretary of Defense Gray for his supplementary observations.

Secretary Gray remarked that he could not pose any more questions, and wouldn't take the time to do so even if he could. He said that he felt that the work of the Prochnow Committee was a step forward to a solution of our foreign assistance problem, but that we had not yet arrived at the solution. The Prochnow Committee had had neither the competence nor the authority to evaluate much more than the budgetary implications of the courses of action which it had analyzed. Nevertheless, in addition to these budgetary implications there were very significant economic, military and political factors and interrelationships which remained to be assessed before any decision on these assistance programs could be made. Secretary Gray cited various examples in support of this thesis, and added that he was only suggesting the difficulties which had faced the Prochnow Committee and which the Fairless Committee in turn would have to face. Accordingly, continued Secretary Gray, he believed that hard decisions in this area would have to be made by an instrumentality which had cognizance of all the diverse considerations and interrelations which he had mentioned. This meant the National Security Council or a body very much like it.

Refining his views, Secretary Gray stated that in his opinion we could not continue to make individual country decisions with respect to our assistance programs. He would therefore urge that in any event the President direct that the total foreign assistance picture be considered in any decision that is made with respect to aid programs for individual countries. Such a decision must be made at a very high level and with the full participation of all departments and agencies having responsibility in the foreign assistance field.

Secretary Humphrey stated that he would subscribe heartily and entirely to what Secretary Gray had just said. But he would go even further and state that the foreign aid problem itself could not be considered alone. Before we consider the foreign aid problem we must answer the real question. This was: "What part of $5 billion a year would we rather spend this way than spend on our own U.S. military defenses?" Secretary Humphrey went on to insist that we must be selective in our security expenditures. We must give up talking about what we would like to do, and talk instead about what we can afford. Until we are prepared to answer the basic question stated above, Secretary Humphrey insisted that staff studies would be almost immaterial. Our staffs will study the foreign assistance program until the cows come home without any solution until this key question had been answered.

The President replied that Secretary Humphrey was correct in strict terms of a business decision, but had he thought that the really vital question might be put in a different way—namely, how much would you rather spend than have a global war or an armed attack on the United States? Everybody knew, said the President, that he did not want to take the road that would lead to Socialism or totalitarian controls in this country. Nevertheless, he did not believe that we could look at the problem exclusively in the framework in which Secretary Humphrey had placed it. On the contrary, the question we must start with is the question as to what the security of the United States demands of us. Once having determined the answer to this question, we could proceed to break it down into the priority claims of our national security programs on our resources. Certainly we could not base a vital decision like this on purely budgetary considerations.

Secretary Humphrey expressed his agreement with the President's reasoning, but repeated that we could not start with the details; we must start from the top in our programs and work down, not start at the bottom and work up to the general level of expenditure.

Secretary Dulles, turning to the President, said that there was now no need for him to state the argument which the President had just stated for him. However, he would like to add that he agreed with Secretary Gray as to the necessity for the National Security Council itself to make the big decisions with respect to our assistance programs. Secretary Dulles added that he had met for two hours yesterday with the Fairless Committee. Some of the members of that Committee were obviously knowledgeable; but by and large, it would be a miracle if this Committee, in six short months, even began to understand the foreign assistance problem to the degree that we in the National Security Council do after living with it for years. Certainly the Fairless Committee was not likely to make a decision on our foreign assistance programs which would be automatically acceptable to this Administration. Secretary Dulles felt that in the end we would probably not be able to do anything more effective than to seek this decision from the President and the top members of his Administration. With all our imperfections and short-comings, we around this table are more conversant with the foreign assistance problem than any outside group could possibly be after a mere six months of study. All such human and psychological factors as were represented by Syngman Rhee in Korea, or Magsaysay and Recto in the Philippines, Diem[11] and Chiang Kai-shek,[12] would have to be dealt with, and an outside committee would be ignorant of the magnitude of such very important human factors. Such feelings and factors could not possibly be reflected in the charts and statistics which were being studied by the Fairless Committee. It could almost be described as "reckless" to leave such a vitally important decision to individuals who do not have a grasp of these factors.

Secretary Dulles continued by stating his own belief that in point of fact there was no need for as many as twenty active divisions in the South Korean Army; but how difficult it was to figure any means of cutting back the force levels in South Korea. Outside committees haven't the remotest idea of the real character of the problem. Secretary Dulles repeated his conviction that the answer to the foreign assistance problem must be found primarily in the combined wisdom of the people gathered around this table at this time.

The President replied that despite this argument he thought there was still some value in these committees, though he said he had never heard of any plan that these committees should make decisions with respect to foreign aid for the Administration.

Secretary Humphrey supported Secretary Dulles' view, and stated that the responsibility for the decision centered in this room. Moreover, the National Security Council ought to face up to it promptly. The President inquired of Secretary Humphrey whether the latter thought he had all the facts necessary to face up to such a decision. Secretary Humphrey replied that he did not so think, but that we should proceed to get the requisite facts. Foreign aid spending was the most critical problem now facing the present Administration. To solve that problem should be the first order of business after the election.

Deputy Secretary of Defense Robertson referred to a comment by Secretary Gray earlier with respect to the use of nuclear weapons, and said he wished to relate this issue to the countries in question. He said he had been last week in Italy, making a visit to the Southern European Task Force (SETAF) with Italian Minister of

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[11] Ngo Dinh Diem, President of South Vietnam.

[12] Chiang Kai-shek, President of the Republic of China.

Defense Taviani.[13] He said that Taviani had been very expressive as to the favorable impact on the Italian people of knowledge of the existence of this U.S. force on Italian soil with an atomic capability. Taviani said it would have been impossible even to speak of such a force on Italian soil six months ago. Now, however, SETAF was welcomed by the Italians as something very salutary in the way of an atomic back-up for Italy's own defense forces. Such a change could be related to the problems of Turkey and Korea. In short, the political difficulties of stationing American forces with atomic capabilities could probably be solved if we really set about to solve them. Specifically, President Rhee might well agree to a reduction in the level of his own armed forces if the United States promised to provide back-up forces with an atomic capability in South Korea.

The President observed that what Secretary Robertson was suggesting was what this Administration had really started out to do four years ago, in the form of the so-called new look strategy. But instead of succeeding in reducing the costs of our conventional armaments, the costs of both conventional and atomic armaments had steadily risen.

Governor Stassen pointed to the value of the study of the foreign aid programs by outside committees. He believed that their findings could well result in influencing the Congress and the American people to accept whatever final decision the Administration reached with respect to the level of our foreign assistance expenditures. Nevertheless, Secretary Dulles said that he was still curious to know why we imagined that the Fairless Committee would come up with the right answer to this great problem, when we ourselves don't yet have the slightest idea what the answer is.

The President again repeated that he did not expect the Fairless Committee to come up with the right answer. The President then went on to say that what in essence this Government was really trying to do, when you get down to it, was to prevent the Iron Curtain from advancing further or, indeed, to force a retraction of that Curtain if we could. The question was the best and cheapest means of achieving this objective. The President said that he had felt for a long time that we have not been going about this course of action in the right way. We had not chosen the best path. Furthermore, continued the President, the best path must be to consider first the kind of foreign assistance program which would be best from the strict point of view of U.S. national security interests. Having made such a decision, we should then ask the State Department to estimate the effect on other countries of trying to put such a revised U.S. program into effect.

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[13] Paolo E. Taviani.

Secretary Dulles was inclined to disagree with the President, and thought that the two issues, of what was best from the strict point of view of the United States and what would be considered acceptable by the countries receiving our aid, should be studied together and not in succession. He added that he believed it possible for the United States to work out an aid program for Korea, Turkey, and the others, which would cost us a lot less money. But there would remain the problem of getting these countries to accept such a program without tearing things to pieces because we had not related our program to the psychological repercussions it was bound to cause in these friendly countries. Even this could be done successfully, but the members of the National Security Council are the best ones to do the job, not any outside committee.

Secretary Humphrey proposed as a suggestion that after the election the Administration start formulating a brand new general military program on the order of what we started to do four years ago. After we have formulated such a program, that the Secretary of State criticize it from his point of view, and let Secretary Humphrey criticize it from the financial and budgetary point of view. Wouldn't the end result of such an effort probably be a pretty good assistance program?

The President cautioned that a program designed solely in our own particular interests might very well "bust" the countries that we were purporting to assist.

Agreeing with Secretary Humphrey's proposal, Governor Stassen pointed out that in fact we were just approaching the time when we were in the best position to do what Secretary Humphrey had suggested. We are about to get a fresh mandate (we hope) from the American people (some laughter). Moreover, the re-election of the Administration will make the rest of the world aware that the present Administration will be in power for at least four years more.

With some evidence of amusement, the President agreed that Governor Stassen might be right.

Admiral Radford asked if he might be heard. He said that he was not as pessimistic about the foreign assistance problem as many people were. He believed that the military aspects of this problem could be ironed out, but there were two most important features which he wished to stress if the problem were to be solved. The first feature related to the stability of all these little countries around the world. Essentially, their stability depended upon a conviction that the United States would in fact assist them quickly if they were confronted by a crisis and by aggression. Once these countries are really sure of this, they will begin to get a climate of stability economically which they do not now possess.

Secondly, said Admiral Radford, and even more important, is the bearing on our economic aid programs of the fact that many U.S. corporations would gladly operate in overseas countries and invest in these countries if they in turn could be assured of some degree of stability and security for their operations and investment. In sum, if the United States can go on record in such a way as to assure the peoples of these foreign nations that we will provide help in case of need, we could certainly look forward to a future period when these countries could advance on their own. As for the specific military problem, SETAF was a model. SETAF was equipped only with defensive atomic weapons. No one could reasonably criticize it on this basis.

The President replied that as far as what Admiral Radford had been saying about the role of private investment was concerned, practically all of it could be found set forth in the National Security Council papers which were considered back in April 1953. Further, the President said, he couldn't agree more with Admiral Radford, but the question was, how do you get this private investment going? The President then reverted to his previously expressed view that the first task before us was to determine what as a minimum the United States requires as force levels to be maintained in Turkey, Pakistan, Korea, and Formosa. If we could once figure out the minimum forces that such countries ought to maintain in being, we would then have something to start with by way of an assistance program. Thereafter we could turn to Secretary Dulles and ask him whether he could sell such a program. After all, he is the salesman of foreign policy.

Secretary Humphrey asked to what extent we were proposing to go back to the new look policy of four years ago. That was the real question.

The President then suggested that the NSC Planning Board be asked to start a review of those countries where the United States was really most heavily engaged in assistance programs. The Planning Board should be asked to look at the analysis of the Prochnow report for each of these countries, and having done so, review U.S. policy in each of these countries. Careful attention should be paid to what constituted the minimum demands of our national security with respect to the level of forces to be maintained in these countries. If this were done perhaps we could gradually approach an answer to our foreign assistance problem.

The National Security Council: [14]

a. Noted and discussed the subject report (NSC 5610), prepared pursuant to NSC Action No. 1486–e as subsequently modified by NSC Action No. 1560, as summarized at the meeting by the Chairman, Interdepartmental Committee on Certain U.S. Aid Programs; and the supplementary observations thereon and on Part 2 of NSC 5611 by the Director, International Cooperation Administration, and the Assistant Secretary of Defense for International Security Affairs.

b. Noted the President's request that the Joint Chiefs of Staff prepare reports to the Council, in the light of the discussion, as to the minimum level of indigenous forces which it would be in U.S. interests to have maintained in Pakistan, Turkey, Taiwan, and Iran over the next two years.

c. Directed the NSC Planning Board to review the scope and allocation of military and non-military foreign aid, for Korea, Pakistan, Turkey, Iran and Taiwan on a priority basis, and recommend to the NSC appropriate revisions in existing policies which will take fully into account the political implications of such revisions, the economic considerations presented in the Report by the Interdepartmental Committee on Certain U.S. Aid Programs, and the military advice presented by the Joint Chiefs of Staff in the reports referred to above.

Note: The action in b above, as approved by the President, subsequently transmitted to the Secretary of Defense for appropriate action by the Joint Chiefs of Staff.

[Here follows item 3.]

S. Everett Gleason

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[14] Paragraphs a–c that follow constitute NSC Action No. 1624. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1956)

28. Memorandum From the Deputy Assistant Secretary of State for Far Eastern Economic Affairs (Jones) to the Special Assistant to the President (Randall) [1]

Washington, November 20, 1956.

SUBJECT

U.S. Foreign Aid Programs

In accordance with your request, I submit a few of my thoughts on the above subject.

Policy Problems

Flexibility. Whether we like it or not, we are in the midst of economic warfare and the entire aid program should, in my opinion, recognize this. The trade embargo against Red China is one weapon; our aid program is another. Our whole economic operation should be of a piece. This is clearly stated in our U.S. policy objectives which, in regard to the aid programs, may be summarized as follows: to curb the power and prevent the expansion of international Communism and increase the strength and expand the influence of free world countries.

The Communists have launched an economic offensive which in the past six months has involved commitments of well over a billion dollars. An essential principle of our response to this challenge in my opinion should be that we should *not outbid* but *out-perform* the Communists. To do this, flexibility is essential. I mean by flexibility that funds should be available to be used, if, as, and when necessary in the U.S. interest and should not be tied to a budget appropriation schedule under which their use must be determined about two years in advance. The situation is too fluid for this fixed operation type of procedure. Neither should our response to special urgent situations be hampered by abstract general concepts which may prevent us from assisting a nation in the solution of its most difficult problems.

Were it not for the President's direct action, we might well have been handicapped currently in the Hungarian and Polish developments by our inability to react promptly and decisively in a new situation. This flexibility should extend to trade as well as aid. We should be able to spend our money fast at the point of need as it arises.

It has also been the ICA policy not to give development assistance in areas where we have surpluses for export. Rice and tobacco are two commodity illustrations. Textile manufacturing is an industry example. This refusal of a request for assistance in certain areas raises doubts as to our real intentions in giving aid and tends to turn some of these countries to the Communists for solution of their major problems.

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[1] Source: Eisenhower Library, CFEP Chairman Records. Confidential.

Examples:

Ceylon became involved with Red China because she had rubber to sell which the free world couldn't buy. Rubber is life to Ceylon. The Communists bought it and even offered a premium price. The defeat of the conservative government under Sir John Kotelawala and the accession to power of a neutralist government rapidly reaching additional accommodation with Communist China may be partly traced to this development. Pre-emptive buying of this rubber, which the U.S. could have used in any event, might well have produced a different outcome.

A somewhat similar situation developed in Burma. The U.S. was selling its surplus rice on concessional terms to Asian markets while Burma's rice surplus was soaring. The Soviets stepped in, bought up Burma's surplus, and contracted to take 400,000 tons a year for four years.

Popular Impact

From an economic standpoint, insertion of aid at the "top", that is, the financing of large-scale enterprises such as power plants, et cetera, is undoubtedly the most efficient method, but it often has little or no popular impact or dramatic appeal. America gets no popular credit for slowing down inflation in a country. In this period, we need not only to improve the economies of these countries—we need to make friends of their people. Too often, the general economic situation in a country improves as a result of our aid but it's a case of "the rich getting richer" with little or no impact on the little man.

Greater consideration needs to be given, in my opinion, to popular impact programs and projects which create a friendly reaction.

Loans versus Grants

Most of the countries of the Far East can repay loans—exceptions are Korea and to a lesser extent Taiwan and Viet-Nam. In addition to being more satisfactory from the U.S. point of view, loans have the following advantages in most countries receiving assistance:

1. They prefer loans for reasons of self-respect—they feel under less obligation when they are borrowing money they expect to pay back.
2. They feel that loans have fewer strings attached than grant aid.

3. Loans provide greater incentive for effective utilization of aid funds—they are spending their own money.

The distinction should not be on the basis of whether the loan is a "soft" loan or a "hard" loan. There should be no factor in the decision as to whether the aid should be extended as a grant or on a loan basis. Long term loans, repayable in local currency for projects which otherwise could not qualify for conventional loans by the Export-Import Bank or the IBRD can in many instances be substituted for grants.

There is an important area of exploration as to the type of loans to be made by ICA versus the IBRD, Export-Import Bank, and the International Finance Corporation.

Basic economic development all over the world has been financed throughout history by invested capital or loans, private or government, whether we are talking about the United States, Europe or Latin America. Countries with the potential resources of Indonesia, Burma, Thailand, should not need grants for revenue-producing enterprises and probably not for basic non-revenue producing projects such as roads and bridges.

Administrative Problems

The thing that impresses me most about our aid program is that we are spending billions of dollars and muffing a great opportunity. We are doing this by getting in our own light. There is no doubt in my mind that these programs saved Europe from Communism after the war and have done the same for many countries in Asia during the past few years. But there is no gainsaying the fact that the major irritants in our relations with many countries in the Far East today have their sources in these same programs.

The twin evils from which these programs suffer are both traceable to administration. These are (1) procedural complexities which Asians do not understand and resent as interference with their own affairs; (2) lags in program implementation, also due largely to complex procedures. Three illustrations.

1. Approval of detailed project plans by ICA/Washington is a never-ending source of irritation. These governments think they know what they want. They don't object to concurrence on the spot by an ICA Mission director thoroughly familiar with their problems, but they do object to being told what they should do. They resent reference to Washington with the months and months of delay this entails. This, incidentally, is a major problem for our Missions themselves. Most members of Mission staffs spend more time justifying to Washington what they are doing or planning to do than they spend doing it.

2. Asians do not understand why the same detailed procedural pre and post audit checks apply to loans as well as grants. In the

case of loans, they are spending their own money. Why should they be treated like incompetents—why should not ICA loans be handled as bank loans are, they ask.

3. The average time it took to get delivery of supplies and equipment to our Mission in Indonesia when I arrived there as Director in July 1954 was more than 20 months from date of order. This usually meant more than two years from the time the project was first discussed with the Indonesian Government. In some cases neither the American who worked up the project nor the Indonesian with whom it was developed were around to carry it out by the time the necessary equipment arrived.

Conclusion:

The foreign aid program is an essential part of America's foreign policy. Its effectiveness can be greatly increased. To accomplish this, however, flexibility of decision and operation not now possible under requirements of law must be provided. The program needs to be regarded as a major cold war weapon. It should be prepared for utilization under such circumstances and conditions as enable maximum exploitation of its capabilities.

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29. Memorandum From the Deputy Director for Program and Planning, International Cooperation Administration (Ohly), to the Director (Hollister)[1]

Washington, March 7, 1957.

SUBJECT

The Fairless Report

This is in response to your request for preliminary comments on the Fairless report[2] prior to your departure for Cuba.

It would be very easy, and it is very tempting, to address the most devastating criticism to this report and to develop at length on the theme suggested by one person that seldom have the taxpayers of a country been asked to pay $10,000 a page for 19 pages of such trash and trivia. However, one must recognize that this report is the product of compromises among, and a conglomerate of, the conflicting views of 7 individuals who obviously were unable to come to an agreement on many fundamental points and who, for the most part, and in spite of their generally outstanding abilities, had been able to devote insufficient study to problems which, in the aggregate, are certainly more complicated and less susceptible to exact treatment than, say, the problems that constitute the field of nuclear physics. Moreover, it would be less than fair if we did not recognize that the committee did reach and express, sometimes, unfortunately, with mysterious and disturbing qualifications, or less coherently and forcefully than might be desirable, a set of important general principles with respect to the need for and the capacity of the U.S. to provide assistance to other friendly countries. These principles deserve the most serious consideration, since they do reflect agreement among this group of individually very different 7 persons, and since they do constitute the kind of broad judgments that a group of this kind is probably qualified to reach.

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[1] Source: Washington National Records Center, ICA Director's Files: FRC 61 A 32, Box 314, Committees—Fairless.

[2] Not printed. Published as "Report to the President by the President's Citizen Advisers on the Mutual Security Program," March 1, 1957 (Washington).

Before commenting on some of the more important specific conclusions in the report, I believe a few general observations are necessary, since they affect the capacity of anyone to comment meaningfully on large sections of this document. These observations are the following:

1. On many important matters the report appears to be internally inconsistent and to contain recommendations which are conflicting in nature or in purpose. The report, as someone has said, and using a trite phrase, can "mean all things to all men", and the newspaper treatment of it certainly demonstrates this fact. These inconsistencies and conflicts are particularly noticeable in connection with the problems of (1) future cost of the program; and (2) the ways and means of providing capital required to accomplish the economic development which the report asserts is necessary.

2. The report is difficult to deal with because of the impreciseness with which it repeatedly uses, and uses in new contexts, certain words and phrases. The most difficult problem in this regard is created by the use of the terms "collective security programs", "collective security system", "collective security of the free world", "collective security costs", and "collective security". It is frequently unclear whether the term "collective" is intended to be synonymous with "mutual"; whether, by using a word normally restricted to international action in defense against external aggression we are talking about a military system of alliances and aid, or a somewhat broader concept; etc. One is therefore left with a somewhat muddled concept as to the kind of free world strength, structure and relationships that our aid program should seek to create.

3. The undefined concept of "collective security" which is referred to in (2) above has resulted in the introduction of new measures of the level of U.S. contributions to the security of other countries which I find very confusing and which I believe complicate to an impossible degree the question of measuring the probable future cost, and the capacity of the U.S. to finance, aid programs

that will be required in the years ahead. To equate the U.S. contribution to "collective security" with the particular expenditures specified in Part III of the supplement and which constitute the foundation of the figures used in the report proper, makes no sense conceptually. The U.S. contribution to "collective security" of the free world quite obviously includes a large part of the total defense expenditures of the U.S., even though those expenditures are made in the U.S., and I can see no benefit in trying to divide this contribution to "collective security" into parts on the basis attempted by the committee. The only result is to create popular confusion as to the size of our "mutual security program" and to establish a false hypothesis against which to measure the capacity of the U.S. to carry on the "mutual security program" in the future.

4. The report suffers throughout from what I might describe as the lack of basic political, economic and even military concepts. For example, the committee gives no indication that it understands the facts of life concerning modern warfare and therefore concerning the role in such warfare which countries such as Pakistan, Vietnam, Korea, etc., might play. Thus the report contains sentences such as the following: "Sizeable contributions by *all* the participants [in the collective security system] [3] are required for the effectiveness of this structure."; and "The U.S. needs the aid of other countries just as they need our assistance." I gain the impression also that the committee as a whole has very little "feel" as to political and economic conditions actually existing in many of the foreign countries, as to the problems of development and government that confront many of these other countries, and, in fact, as to the problems involved in conducting a major operation within the U.S. government.

I turn now to some of the major substantive propositions and recommendations of the report. [4]

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[3] Brackets in the source text.

[4] Not printed. (Washington National Records Center, ICA Director's Files: FRC 61 A 32, Box 314, Committees—Fairless)

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30. Letter From the Acting Secretary of State to the Chairman of the Council on Foreign Economic Policy (Randall) [1]

Washington, March 9, 1957.

DEAR MR. RANDALL: The Department of State has carefully reviewed the report of the President's Citizens Advisers on the

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[1] Source: Eisenhower Library, Harlow Records.

Mutual Security Program. We believe that it makes a positive contribution to public discussion and to policy formulation. We are in agreement with its three basic conclusions:

1. The Committee takes a positive stand in favor of United States foreign assistance: it believes that such assistance has contributed to collective security and should be continued on a substantial scale. It warns specifically that "the United States must abandon the false hope that collective security costs are temporary".

2. The report stresses that foreign aid contributes to collective security in two equally important ways: by creating military strength and by promoting economic development. It speaks in the same sense as Section 14 of the Mutual Security Act[2] when it says: "Economic development is, in the long run, as important to the security of the free world as the military measures we have taken".

3. The report recommends that economic development assistance receive heavy emphasis and continue for an extended period. It speaks of the need "to concentrate economic assistance more upon long-range economic development", and says that "assurances should be given of our intention to continue it over a period of years." It stresses the necessity for the granting of greater discretionary power to the executive branch.

In all these major respects the Department agrees with the report. More detailed comments are to be found in the enclosed document,[3] which responds to the twenty-three specific points listed in the letter from Colonel Cullen of March 5.[4] As you will see, there are certain matters of implementation on which our views differ from those of the Committee, but on a great many we are in agreement.

With respect to the further request of your letter of March 4,[5] I am asking Mr. Dillon to represent the Department of State at the meeting which you have called for 11:00 a.m., Wednesday, March 13, in Room 213 of the Executive Office Building.

Sincerely yours,

Christian A. Herter

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[2] Reference is to Section 14 of the Mutual Security Act of 1956 (Public Law 726), enacted July 18, 1956. For text, see 70 Stat. 566.

[3] Not printed, but see the enclosure to Randall's memorandum, Document 33.

[4] Not printed. (Washington National Records Center, ICA Director's Files: FRC 61 A 32, Box 314, Committees—Fairless)

[5] See footnote 2, Document 32.

31. Letter From the President of the International Bank for Reconstruction and Development (Black) to the Chairman of the Council on Foreign Economic Policy (Randall)[1]

Washington, March 11, 1957.

DEAR CLARENCE: I am writ~~ing in an~~swer to your request for my comments on the report dated March 1, 1957 of the Presidential Advisers on the Mutual Security Program. You will understand, I am sure, that the views I express are personal and off-the-record; also that I am not in any position to comment on military aid and defense support programs as such.

If you remember the two papers I sent you on September 5, 1956,[2] you will not be surprised to learn that I am, in general, disappointed in the report.

The report contains several proposals and many individual statements with which I am in agreement. For example, I welcome the recognition that foreign aid must be a long-term program, that some economic assistance is needed (p. 18) and should be administered separately from the military aid (p. 13), that expansion of trade and reduction of tariff barriers are desirable (p. 7), that private investment should be encouraged (p. 8) and that dollar loans should be based on judgments of creditworthiness (p. 10). I think the proposals for two-year appropriations (p. 14) and flexibility in expenditure (p. 14) are sound. I appreciate the expression of approval of the work of this Bank and of the potentialities of the International Finance Corporation (p. 9).

On the other hand, I seriously disagree with several positions taken in the report and I am not happy about its general tone and approach in so far as economic aid is concerned. I will confine my comments to matters that seem to me to be of major importance.

Analysis

I was disappointed to find so little analysis of the problem. The report contains little discussion of the needs for and purposes of economic aid and almost no analysis of the various means by which those needs and purposes can be met, of the ways in which the various sectors of the foreign aid program have met or failed to meet those needs and purposes, and the reasons therefor, and of the very wide differences that seem to me to exist between different countries and different areas of the world in all these respects.

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[1] Eisenhower Library, Harlow Records. Personal and Confidential.

[2] Not further identified.

Emphasis on Military Aspects of Aid

The conclusions of the report, and such analysis as it contains, all lean heavily, in my opinion far too heavily, in the direction of justifying all aid on strategic considerations. Although some economic aid is conceded to be necessary, it is very definitely treated as the tail of the dog. It is apparently intended that little aid, if any, shall be made available to countries outside of the collective security system except by the Export-Import Bank, World Bank and Monetary Fund (p. 11).

As I think you know, this does not correspond to my thinking. I believe that there are countries in the world which cannot achieve a desirable rate of development solely by means of repayable foreign exchange loans. A number of these, including some of the most important, are outside the collective security system.

Moreover, I feel very strongly that justifying economic aid by security considerations will harm the program. I am convinced that economic aid can be far more effective if it is divorced from politico-military strategy, not only in being administered by a separate agency, as the report suggests, but also, and more importantly, by being administered in the light of different objectives and standards. These should in my opinion be economic and not strategic.

Standards of Administration

The report contains very little about standards of administration of economic aid. This is perhaps inevitable in view of the lack of clarity about objectives. I was disappointed to find nothing in the report about using economic aid to encourage local effort and local savings, nothing about laying down standards of performance upon which further aid can be conditioned, and nothing about subordinating short-term commercial interests to long-term economic aims in the administration of economic aid. I was also disappointed to find no clear discussion of the desirability of concentrating economic aid on specific projects or programs, although the recommendation for selectivity and reduction in number of projects (p. 15) seems to suggest a leaning in this direction.

Loans Repayable in Local Currency Versus "Liberal" Loans Repayable in Dollars

I strongly disagree with the view suggested under the heading "Loan Policy Recommendations" (p. 10), namely that when conventional dollar loans are inappropriate because of creditworthiness considerations, resort should be had to long-term, low-interest-rate dollar loans. The alternative of loans repayable in local currency is condemned on the ground that they would jeopardize the soundness of the loan device. As one of the original opponents of "fuzzy" loans, I am distressed to see my point turned upside down. Long-term, low-interest-rate dollar loans *do* "jeopardize the soundness of the loan device" by burdening the recipient countries with additional foreign exchange obligations and making the terms of conventional dollar loans appear oppressive. Their use on any large scale would severely limit the effectiveness of conventional lending institutions and set up another serious barrier to the return of private capital to the field of international lending. Loans repayable in local currency, on the other hand, do not create foreign exchange obligations which compete with the claims of conventional lenders; indeed if properly formulated, they accomplish a transfer of resources to the recipient country which serves to build up its economic strength and hence its creditworthiness for conventional loans.

Capacity to Repay

I am glad to see the firm statement (p. 10) that loans should not be granted in circumstances in which there is grave doubt of repayment capacity. But the Advisers apparently believe that a program of fostering economic development can be financed on a repayable dollar loan basis, except in "exceptional cases" (p. 10) which should be "severely limited" (p. 11). In my opinion, as I have said above, there are a number of countries, some of them countries of great importance, which cannot achieve a desirable rate of development solely on the basis of repayable foreign exchange loans and which will also require for that purpose either loans repayable in local currency or grants.

With respect to these countries the report misses an essential point. Economic aid which does not burden the balance of payments (grants and local currency loans) will normally *increase* the amount of conventional lending that can be done. Economic aid which does burden the balance of payments (dollar loans, whether conventional or "liberal") may merely *replace* conventional lending in whole or part. As I told the Advisers, the scope of World Bank lending in country after country depends on American aid being forthcoming in forms which will not burden the balance of payments.

This consideration, moreover, makes me doubt the soundness of the report's proposal (p. 12) that U.S. surplus agricultural stocks should be sold for cash in dollars, though at reduced prices.

Obscurity

On several critical points, as the above comments indicate, I find the report somewhat obscure. I may therefore have misunderstood the intentions of the Advisers in some respects and have made criticisms for which there is no real basis in their thinking. Of more importance is the fact that this obscurity may confuse the public, which is already sufficiently confused in its thinking about economic aid.

In summary, I do not think this report provides the "new articulation of the purposes of foreign economic aid and its relation to United States interests" to which I looked forward in September. I very much regret being critical of the work of such eminent Americans who have generously responded to a call for public service, but I would be less than frank if I said I thought the report was a satisfactory basis for the formulation of foreign economic aid policy.

Sincerely yours,

Gene

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32. Letter From the Director of the International Cooperation Administration (Hollister) to the Chairman of the Council on Foreign Economic Policy (Randall) [1]

Washington, March 12, 1957.

DEAR CLARENCE: Answering your letter of March 4,[2] I am enclosing [for] you the brief comments of the ICA on the twenty-three points set out in the attachment to Colonel Cullen's letter to me of March 5, dealing with the Fairless Report.[3]

In reviewing any report of this nature I realize the difficulty which the group had to overcome in trying in a short time to understand and consider the ramifications and complications of the largest and most diversified foreign economic operation in the history of the world. It was manifestly impossible for them to do more than hit the high spots. That they were able to achieve unanimity on this report is a great achievement in itself.

In our review we must naturally consider first the proposed changes in existing principles and practices, and it is, of course, comments on these which you have requested. Next, however, as a practical matter we must consider the question of timing and feasibility. Some of the changes in principles and practices which should be put into effect on theory cannot be accomplished soon enough to be applied to the Mutual Security legislation in the coming Congress. Perhaps some of the changes are impossible of achievement simply because Congress just won't approve them irrespective of the time they are presented. Furthermore, we must remember that these large and far flung efforts in some seventy countries which we call the Mutual Security Program, make, in the composite, a great stream which can be dammed or diverted only with considerable effort but cannot be turned on and off with a spigot.

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[1] Source: Eisenhower Library, Harlow Records. Official Use Only. A copy of this document is *ibid.*, CFEP Chairman Records.

[2] Randall sent requests for written comments on the Fairless Committee recommendations to the Secretaries of State, Defense, the Treasury, Commerce, and Agriculture, the Directors of ICA and the Budget, the Chairman of the Council of Economic Advisors, and the President of the Export-Import Bank. (Department of State, A/MS Files: Lot 54 D 291, Fairless Committee Report)

[3] Not printed, but see the enclosure to Randall's memorandum, *infra*.

In making a review of a report perhaps we should also consider omissions. For instance, I find little in the report on the following important subjects:

1. The direct relationship between the force goals in a country, which our own military experts have approved and often urged, and the economic program in that country.

2. The question of whether or not there should be substantial cuts in some of these force goals. Such a question involves:

   a. The willingness on our part to use nuclear weapons in the event the countries in question are attacked, and

   b. The balance in the United States between reduction in total defense resulting from force goal cuts on one side, and the maintenance of a sound economy through reduced spending and therefore reduced taxation on the other side.

3. Should our spending attitude be tougher in the political area? Are we too quick and too generous in granting economic aid to accomplish wholly political ends? To express it differently, are we succumbing too easily to the "gun at the head" psychology?

4. Should we consider grants or loans with less or perhaps even with no "strings" attached? At present all aid carries conditions of some sort.

5. Should we give a substantial amount of economic aid through the framework of military pacts (as distinguished from economic pacts) rather than through our bilateral arrangements with individual countries which are members of the military pacts?

6. Should we be affected in our program by whether or not it makes us immediately "popular" in the country involved or should we pay less attention to this and think of the long-term effect in that country? A corollary of this is the extent to which we should advertise our aid in a country.

7. Is our policy of insuring against non-convertibility, expropriation, and war risk sound? The purpose of these insurance provisions was to induce American private funds into underdeveloped areas, but our experience indicates that all but a small percentage of the funds insured have gone into those countries whose economies no longer need our support.

This is far from a complete list of unanswered questions. Many others will undoubtedly occur to you. Such questions must be considered in making an adequate analysis of our present Mutual Security Program and recommending changes in it.

Yours very sincerely,

John B. Hollister

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33. Memorandum From the Chairman of the Council on Foreign Economic Policy (Randall) to the President's Assistant (Adams)[1]

Washington, March 14, 1957.

You will find in this folder the results of my effort to coordinate agency thinking with regard to the Fairless report.

I asked for written statements from: State, ICA, Defense, Treasury, Commerce, Agriculture, Budget, CEA, and the Eximbank.

I received such written statements from all agencies but Treasury.[2] You will find them in this folder, and I think that you will agree with me that they are thoughtful documents. In fact, one of the useful aspects of the appointment of the Fairless group is that it has caused the agencies themselves to re-survey their own questions.

Today, I invited the representatives of the agencies to meet with me for further discussion of this subject.

We found that the Fairless report presented 23 questions for decision, and we asked the agencies to address themselves to those specific points.

In this folder, you will find a page for each such question, which gives at the top the text of the Fairless recommendation, then the results of the discussion, and finally my recommendation.

You will find that some of these questions are so basic that they could not possibly have been resolved in the short period of time available since the filing of this report. All that I have been able to do on these is to outline for you the nature of the problem. Many of them must have further study.

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[1] Source: Eisenhower Library, CFEP Chairman Records. Secret.

[2] For the letters from the Department of State and ICA, see Document 30 and *supra*. For the Treasury letter, see Document 36. Individual responses from other agencies are in Eisenhower Library, CFEP Chairman Records. The enclosure below contains a summary of the positions of all major respondents on the 23 Fairless Committee recommendations with the exception of the Treasury which submitted its comments too late for inclusion.

Secretary Humphrey, General Cutler, and others felt that the proper forum for endeavoring to arrive at an agreed position in the first instance was the Council on Foreign Economic Policy, and I have therefore recommended that some of these come back here for further study.

Where it seemed appropriate, I have suggested that the problems be referred to other agencies for further study.

General Cutler, by his letter, has helpfully drawn attention to those recommendations in the Fairless report which contravene existing NSC policy.

I also took the liberty of asking for a confidential personal letter from Gene Black.[3] This is in the folder, but should not be widely circulated.

There was agreement among us that, even though there were differences as to particular points of the Fairless study, it should not be forgotten that this group, by its unanimous and friendly report, has brought support to the Administration.

It was also pointed out that in the trade and foreign investment fields, which are not involved in my current studies for you because they required no action, the Fairless group has made an important contribution to the support of the President's liberal views.

I shall be glad to follow through on the implementation of my recommendations if you wish to have me.

Clarence B. Randall[4]

Note: This memorandum is declassified when separated from the attached NSC secret document.

Enclosure

Fairless Recommendation 1

The United States Government should increase its efforts to make known, both at home and abroad, the productive contributions and possibilities of private capital. This can and should be done by our diplomatic missions and by friendship and commerce treaties. In our opinion, this effort has not been pursued, thus far, with the vigor that the obvious benefits that such an undertaking would justify. (Page 8)

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[3] Document 31.

[4] Printed from a copy that bears this typed signature.

Agency Position

State	Agrees with objective but states that already doing everything possible.
ICA	Agrees
Defense	No comment
Treasury	
Commerce	Agrees
Agriculture	No comment
Budget	Agrees
CEA	Agrees with objective and use of treaties for this purpose but has doubts whether diplomatic missions should emphasize "the productive contributions and possibilities of private capital."
NSC	No recommendation
ExIm Bank	No comment

Staff[5] *Recommendation*

Seek consensus of agreement on this recommendation.

Fairless Recommendation 2

The United States should administer its assistance in a manner designed to overcome the obstacles to private investment. (Page 9)

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[5] The staff of the Council on Foreign Economic Policy.

Agency Position

State	Agrees with objectives but should not make economic assistance contingent on any rigid standards.
ICA	Agrees
Defense	No comment
Treasury	
Commerce[6]	Agrees
Agriculture	No comment
Budget	Agrees
CEA	Agrees with objective but should not make aid conditional on changes in specific restrictions on private investment.
NSC	No recommendation
ExIm Bank	No comment

Staff Recommendation

Seek consensus of agreement on this recommendation.

Fairless Recommendation 3

Guaranties, loans to private investors with sharing of any losses, and joint investment of private and public capital should be tried in selected areas. (Page 9)

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[6] Department of Commerce entries under this and following recommendations were handwritten on the source text.

Agency Position

State	Recommends further study
ICA	Further study
Defense	No comment
Treasury	
Commerce	Recommends further study
Agriculture	No comment
Budget	Agrees provided Government's financial liability is included within currently approved Mutual Security budget, Government's authority can be delimited, and additional private capital is attracted.
CEA	Recommends study of need for further legislation
NSC	No recommendation
ExIm Bank	No comment

Staff Comment

We believe that the guaranty program has been extended as far as it should be. It is our belief that guaranties against losses and the other proposed arrangements will not provide adequate stimuli to private foreign investment because business firms will not invest abroad unless they have reasonable assurance that their operations will continue in existence for a considerable period. In other words, they want going-enterprises abroad rather than guaranties against losses.

Staff Recommendation

Seek to obtain consensus that this recommendation should not be approved based on the above comment. Failing this, seek to obtain consensus that this recommendation be referred to the NAC for further study and report to this group.

Fairless Recommendation 4

The wider use of the services of private firms on a contract basis also is a desirable way to meet the recruitment problem. (Page 9)

Agency Position

State	Agrees
ICA	Agrees
Defense	No comment
Treasury	
Commerce	Agrees
Agriculture	Agrees but considers close Government supervision necessary.
Budget	Agrees
CEA	Agrees
NSC	No recommendation
ExIm Bank	No comment

Staff Comment

We endorse the wider use of the services of private firms on a contract basis, not only to meet the recruitment problem but to improve the efficiency of the program.

Staff Recommendation

Seek to obtain consensus of agreement.

Fairless Recommendation 5

Improved coordination is needed between the Export-Import Bank and the World Bank. (Pages 9 and 10)

Agency Position

State	Agrees
ICA	No recommendation
Defense	No comment
Treasury	
Commerce	Agrees
Agriculture	No comment
Budget	Agrees
CEA	Agrees
NSC	No recommendation
ExIm Bank	Agrees

Staff Comment

The report does not state in what ways improved coordination is needed between the Export-Import Bank and the World Bank. Coordination on individual loans is now achieved through the mechanism of the NAC and that aspect of coordination appears to be well done. Perhaps the coordination suggested by the report refers to exchange of information and policy coordination between the two banks prior to and over and beyond the kind of coordination that takes place in the NAC on individual loans. This subject should be studied.

Staff Recommendation

Seek to obtain consensus of agreement on this recommendation and that the recommendation should be referred to the NAC for implementation.

Fairless Recommendation 6

Loans by the United States repayable in the inconvertible currencies of foreign nations are undesirable and the practice of granting them should be terminated. (Page 10)

Agency Position

State	Disagrees because loans may be required for technically feasible and productive projects which do not save or generate dollars for repayment; such loans are not available from other sources.
ICA	Disagrees
Defense	No comment
Treasury	
Commerce	Disagrees
Agriculture	Agrees in principle but not for implementation at this time; considers grants less desirable than foreign currency transactions.
Budget	Agrees
CEA	Disagrees. States that local currency loans may be useful to exert pressure on recipient countries to pursue sounder monetary and fiscal policies.
NSC	No recommendation[7]
ExIm Bank	No comment

Staff Comment

We do not agree that all such loans are undesirable and that the practice of granting them should be terminated as recommended in the Fairless Report. We believe that the granting of such loans should meet carefully developed criteria. At times such loans would certainly be in the national interest. Such loans contribute to the strengthening of the borrowing country's economy and, therefore, improves its credit worthiness for conventional loans.

Staff Recommendation

Seek to obtain consensus that this recommendation be disapproved.

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[7] Adoption of this recommendation would restrict or make difficult the extension of aid to certain countries now being assisted in accordance with NSC policy. [Footnote in the source text.]

Fairless Recommendation 7

The validity of international contracts should not be undermined by the granting of loans in instances in which there is grave doubt as to the ability of the borrower to repay. There will, however, be cases in which it is in the interest of the United States to make dollar loans on more liberal terms than those of the established public banks with respect to interest rates and periods of repayment. (Page 10)

Agency Position

State	Agrees but would not limit loans to loans repayable in dollars.
ICA	Disagrees that instances of inability to repay will undermine validity of international contracts but agrees that softer dollar loans should be made.
Defense	No comment
Treasury	
Commerce	Agrees
Agriculture	No comment
Budget	Agrees
CEA	Agrees
NSC	No recommendation[8]
ExIm Bank	No comment

Staff Comment

We agree wholeheartedly that the validity of international contracts should not be undermined by the granting of loans in instances where there is grave doubt of the ability of the borrower to repay. The granting of dollar loans on more liberal terms than those of the established public banks have adverse effects upon the terms of private loans and jeopardize the soundness of conventional dollar loans by increasing the foreign exchange obligations of recipient countries.

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[8] Adoption of this recommendation would restrict or make difficult the extension of aid to certain countries now being assisted in accordance with NSC policy. [Footnote in the source text.]

Staff Recommendation

Seek to obtain consensus disapproving soft dollar loans but approving balance of recommendation.

Fairless Recommendation 8

Assistance in grant form should be given only in those exceptional cases where it is clearly in the national interest to do so and when the recipient countries are judged to be unable to repay. (Page 10)

Agency Position

State	Agrees with criteria but believes that the number of cases in which grants may be made under the criteria will be more than the report implies.
ICA	Agrees, with deletion of word "exceptional"
Defense	Agrees
Treasury	
Commerce	Agrees
Agriculture	No comment
Budget	Agrees
CEA	Agrees. Considers that grants may be required in more than exceptional cases.
NSC	No recommendation[9]
ExIm Bank	No comment

Staff Comment

We believe that assistance will be needed in grant form other than just in exceptional cases. We agree with this statement when the word "exceptional" is deleted.

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[9] Adoption of this recommendation would restrict or make difficult the extension of aid to certain countries now being assisted in accordance with NSC policy. [Footnote in the source text.]

Staff Recommendation

Seek to obtain consensus on this recommendation with the deletion of the word "exceptional".

Fairless Recommendation 9

In all cases the guiding principle governing military grants should be the obligation of each country to bear its fair share of the cost of a common defense. (Page 10)

Agency Position

State	Agrees
ICA	Disagrees because there are cases where grants should be made even though country may not bear fair share.
Defense	Agrees
Treasury	
Commerce	No position
Agriculture	No comment
Budget	Agrees
CEA	Agrees
NSC	No recommendation
ExIm Bank	No comment

Staff Recommendation

Seek to obtain consensus of agreement on this recommendation.

Fairless Recommendation 10

The contributions of other economically advanced nations to the task of providing external assistance to nations in need should be actively sought. For any country which the United States wishes to support, and for which substantial non-United States aid might be forthcoming, we should announce publicly our willingness to undertake appropriate joint assistance programs. (Page 11)

Agency Position

State	Agrees, but doubts wisdom of public announcement.
ICA	Agrees, but doubts wisdom of public announcement.
Defense	Agrees
Treasury	
Commerce	Agrees
Agriculture	No comment
Budget	Agrees
CEA	Agrees
NSC	No recommendation
ExIm Bank	No comment

Staff Comment

The State Department gives no reason for withholding public announcement.

Staff Recommendation

Seek to obtain consensus of agreement on this recommendation.

Fairless Recommendation 11

Grants to provide capital for development purposes should be severely limited although there may be unusual cases in which they are warranted. (Page 11)

Agency Position

State	Disagrees because does not believe that grants for capital development should be as severely limited as report recommends.
ICA	Agrees
Defense	No comment
Treasury	
Commerce	Disagrees
Agriculture	Disagrees on severe limitation
Budget	Agrees
CEA	Disagrees, because "unusual cases" may be more numerous than suggested by report.
NSC	No recommendation. Adoption of this recommendation would restrict or make difficult the extension of aid to certain countries now being assisted in accordance with NSC policy.
ExIm Bank	No comment

Staff Comment

The overall limitation on grants is contained in Recommendation 8. We disagree with the philosophy expressed in this recommendation. Grants for development purposes contribute more to the strength of the economy than grants for short-run purposes.

Staff Recommendation

Seek to obtain consensus disapproving this recommendation.

Fairless Recommendation 12

In foreign assistance programs a higher priority should be given to those countries which have joined in the collective security system. (Page 11)

Agency Position

State	Agrees except that economic development assistance should not be subject to such a preference system but that the criterion should be the importance to our security of maintaining their independence and stability.
ICA	Agrees in general, but there will be exceptional cases.
Defense	Agrees, but believes this should not be sole criterion for granting aid.
Treasury	
Commerce	Recommends further study
Agriculture	No comment
Budget	Agrees
CEA	Agrees with respect to military assistance but with respect to economic assistance believes that priority should be given to those countries where aid can be used most effectively for economic growth and where democratic procedures are highly valued.
NSC	No recommendation
ExIm Bank	No comment

Staff Recommendation

Seek to obtain consensus of agreement that a higher priority in military assistance should be given to those countries which have joined in the collective security system, but that the criteria for economic assistance should be the importance of the countries to our security, their effective use of assistance for economic growth, and their adherence to democratic procedures.

Fairless Recommendation 13

A return to sound commercial marketing procedure in the disposal of surpluses of agricultural commodities should be our objective. The disposal program should be separated from our foreign assistance activities and the commodities sold at reduced dollar prices to those buyers who can demonstrate intended uses above normal consumption patterns. There should, however, be authority for future economic assistance appropriations to be used for the purchase at fair market prices of agricultural commodities for grants and loans abroad in appropriate circumstances within our foreign assistance program. (Page 12)

Brief

This recommendation would:

a. Eliminate local currency transactions both under P.L. 480 and Section 402 of the Mutual Security Act.

b. Provide for disposals for dollars only, at reduced prices, in cases where normal markets would not be disturbed.

c. Extend aid in the form of agricultural surpluses through appropriations in the aid program for the purchase of such commodities at world market prices from the CCC.

Agency Position

State	Agrees on objective of returning to normal commercial procedures in export of agricultural surpluses; disagrees with discontinuance of P.L. 480 and believes that surpluses may be usefully employed under Mutual Security Program; disagrees on selling surpluses at reduced dollar prices because of adverse repercussions on foreign relations and private competitive trade.
ICA	Agrees with State; recommends study of use of surpluses in connection with Mutual Security Program.
Defense	Agrees
Treasury	

Commerce	No position
Agriculture	Disagrees with recommendation that surpluses be disposed for dollars only because present disposals for foreign currencies are being made in markets where dollars are severely limited.
Budget	Agrees to principle of early return to normal commercial practices but recommends that disposals outside of normal channels be restricted to aid program on grant or loan basis for time being.
CEA	No comment pending clarification of Fairless recommendation
NSC	No recommendation. Conflicts with NSC policy inasmuch as it would eliminate sales for local currencies.
ExIm Bank	No comment

Staff Recommendation

Seek to obtain consensus of agreement on the State Department's position.

Fairless Recommendation 14

In order to improve administration, to clarify what is being done, and to facilitate the legislative process, it is recommended that there be a separation between economic and military contribution to the collective security program. All forms of proposed military assistance should be submitted to the Congress as a separate title within the regular Defense budget. That separate title should include all of which is now labeled "military assistance" in the Mutual Security Program and also that portion of what is now called "defense support" which is in fact for support of local military requirements. All forms of nonmilitary assistance should be submitted separately and labeled as economic assistance, to be justified and administered by the Department of State. (Page 13)

Agency	*Position*
State	Agrees, provided that "defense support" funds appropriated to Defense Department are administered by ICA.
ICA	Disagrees because separation will not improve administration of program but will result in difficulties in presentation before Congress.
Defense	Agrees that military assistance should be included in defense budget. Defense believes that the military portion of defense support should be separated from the economic development portion in the Mutual Security Program budget but does not agree that the military portion should be included in the defense budget. Moreover, Defense believes it should control the release of local currencies generated from the military portion of defense support.
Commerce	Further study
Agriculture	Agrees
Budget	No comment pending discussions with Advisory Committee on Government Organization and your Wednesday morning meeting.
CEA	No comment
NSC	Disagrees. Believes it is difficult to determine which is military and which is economic aid. Considers that separation would make coordination of aid more difficult and thinks that identification of economic aid would make it more vulnerable to Congressional and public opposition. Points out coordination and administrative problems, which will have to be resolved, if appropriations are separated.
ExIm Bank	No comment
Treasury	

Staff Recommendation

Seek consensus of agreement on this recommendation with the understanding that the military portion of defense support would be charged to the Department of Defense budget but would be administered by ICA.

Fairless Recommendation 15

For the administration of economic activities, the International Cooperation Administration (ICA) should be integrated into the Department of State, and merged with the existing economic activities within the Department. (Page 13)

Agency Position

State	Recommends further study
ICA	Recommends further study
Defense	No comment
Treasury	
Commerce	Agrees
Agriculture	No comment
Budget	No comment pending discussions with Advisory Committee on Government Organization and at your Wednesday morning meeting.
CEA	No comment
NSC	No recommendation. Points out coordination and administrative problems, which will have to be resolved if appropriations are separated.
ExIm Bank	No comment

Staff Recommendation

Seek consensus that this recommendation be referred to the Bureau of the Budget for study pursuant to the President's letter of April 15, 1955 instructing the Director of the Bureau of the Budget and the Advisory Committee on Government Organization "to give close attention to the new (Mutual Security Program) organizational arrangements and to recommend such organization improvement as will be considered appropriate."

Fairless Recommendation 16

The existing coordination procedure needs to be strengthened. (Page 14)

Agency Position

State	Agrees
ICA	Agrees
Defense	Agrees
Treasury	
Commerce	Agrees
Agriculture	No comment
Budget	No comment pending discussions with Advisory Committee on Government Organization and at Wednesday meeting.
CEA	No comment
NSC	No recommendation. Points out coordination and administrative problems which will have to be resolved if appropriations are separated.
ExIm Bank	No comment

Staff Recommendation

Seek to obtain consensus that this recommendation be referred to the Bureau of the Budget for further study with recommendations to be submitted to appropriate agencies.

Fairless Recommendation 17

It is recommended that both the military and economic assistance programs be presented to each Congress for approval rather than to each session of each Congress. (Page 14)

Agency Position

State	Recommends further study
ICA	Agrees but recommends study
Defense	Disagrees
Treasury	
Commerce	Agrees
Agriculture	No comment
Budget	Agrees but suggests obtaining program authorization without dollar or time limitation provided that annual request is made for obligational authority appropriation.
CEA	Agrees
NSC	No recommendation
ExIm Bank	No comment

Staff Recommendation

Seek to obtain consensus that this recommendation be referred to the Bureau of the Budget for study and appropriate action.

Fairless Recommendation 18

There seems to be a definite need in both the military and economic authorizations for greater discretionary power. (Page 14)

Agency Position

State	Agrees
ICA	Agrees
Defense	Agrees
Treasury	
Commerce	Agrees
Agriculture	No comment
Budget	Agrees
CEA	Agrees
NSC	No recommendation
ExIm Bank	No comment

Staff Recommendation:

Seek to obtain consensus of agreement on this recommendation.

Fairless Recommendation 19

In our foreign assistance program we should concentrate on placing only highly qualified persons abroad. Quality, not quantity, must be our guide. The stationing of large numbers of United States employees abroad inevitably involves the danger of friction with people proud of their own national independence. (Page 14)

Agency Position

State	Agrees
ICA	Agrees
Defense	Agrees
Treasury	
Commerce	Agrees
Agriculture	No comment
Budget	Agrees
CEA	Agrees
NSC	No recommendation
ExIm Bank	No comment

Staff Recommendation

Seek to obtain consensus of agreement on this recommendation.

Fairless Recommendation 20

A much greater selectivity of projects, a marked reduction in the number and a concentration on the most promising ones would offer relief on this personnel problem and save money. (Page 15)

Agency Position

State	Agrees in general
ICA	Agrees
Defense	No comment
Treasury	
Commerce	Agrees
Agriculture	No comment
Budget	Agrees
CEA	Agrees
NSC	No recommendation
ExIm Bank	No comment

Staff Recommendation

Seek to obtain consensus of agreement on this recommendation.

Fairless Recommendation 21

Greater discretionary authority should be delegated to our representatives abroad in the fulfillment of projects. (Page 15)

Agency Position

State	Agrees
ICA	Agrees
Defense	Agrees
Treasury	
Commerce	Agrees
Agriculture	No comment
Budget	Agrees
CEA	Agrees
NSC	No recommendation
Exim Bank	No comment

Staff Recommendation

Seek to obtain consensus of agreement on this recommendation.

Fairless Recommendation 22

Effort should be made to concentrate economic assistance more upon long range economic development, and assurances should be given of our intention to continue it over a period of years. (Page 18)

Agency Position

State	Agrees
ICA	Agrees
Defense	No comment
Treasury	
Commerce	Agrees
Agriculture	
Budget	Agrees
CEA	Agrees
NSC	No recommendation
Exim Bank	No comment

Staff Recommendation

Seek to obtain consensus of agreement on this recommendation.

Fairless Recommendation 23

Barring some major change in circumstances, the total collective security expenditures of the United States Government abroad for all purposes need not exceed the approximately $8 billion level of the fiscal year 1956. This total consists of $3.9 billion in military assistance to foreign countries, $1.7 billion in nonmilitary assistance to foreign countries, and $2.3 billion in expenditures abroad by our military forces and civilian agencies. (Page 18)

Agency Position

State	Since economic development expenditures may have to be increased, only experience can determine whether total level can be held to Fairless recommendation.
ICA	No comment on overall figure but concedes that economic aid need not exceed present level if there is no change in circumstances.
Defense	Agrees insofar as applies to military assistance
Treasury	
Commerce	Disagrees
Agriculture	Agrees but notes that food distribution grants to voluntary agencies not included in $8 billion figure.
Budget	Agrees
CEA	Agrees that $8 billion will not unduly strain our economy but is not sure that $8 billion is amount that is necessary.
NSC	No recommendation. NSC study underway on "National Security Costs in Relation to Total National Resources" may have important implications as to this recommendation (CEA disagrees).
ExIm Bank	No comment

Staff Comment

While every effort should be made to keep expenditures within reasonable limitations, no arbitrary figure can be placed on the national security needs of the nation.

Staff Recommendation

Seek consensus disapproving this recommendation.

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34. Letter From the Acting Secretary of State to the Chairman of the Council on Foreign Economic Policy (Randall)[1]

Washington, March 16, 1957.

DEAR MR. RANDALL: The Department of State has carefully considered the report of the International Development Advisory Board.[2] We are in agreement with its more important conclusions. We believe that it complements the Fairless report in two major and useful respects:

(a) It sets forth a fuller statement of the United States national interest in economic growth in less-developed areas. We believe that this statement is sound and should help to resolve public and Congressional uncertainty as to the purposes of our economic development assistance.

(b) It proposes a specific organizational structure for giving economic development assistance the increased continuity and flexibility recommended in the Fairless report and in studies made for the Special Senate Committee. We think that such a structure is needed, and that the IDAB's broad proposals in this regard point the way to a more effective program.

Specific comments on the eight points listed in the enclosure to your letter of March 7[3] are enclosed. Our differences with the Board's recommendations are, as you will see, ones of detail and implementation. The Board's analysis and central findings are, we believe, thoughtful and forward looking. The Department of State finds the Board's report, as a whole, a most useful example of public participation in the process of policy formulation.

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[1] Source: Eisenhower Library, Herter Papers, Chronological File. Official Use Only. Drafted by Barnes.

[2] Entitled "A New Emphasis on Economic Development Abroad," submitted to President Eisenhower on March 4.

[3] Not printed.

I am again asking Mr. Dillon to represent the Department at the meeting which you have called for 4:00 p.m. on March 19th.

Sincerely yours,

Christian A. Herter[4]

[Enclosure]

COMMENTS ON THE REPORT OF THE INTERNATIONAL DEVELOPMENT ADVISORY BOARD[4]

The report by the International Development Advisory Board is not a report on the Mutual Security Program as a whole. As its title indicates the report is concerned only with economic development. It calls for a new emphasis on long-term economic development as a major objective of our foreign policy. To make this emphasis effective, it recommends among other things a long-term program of economic development assistance, administered with flexibility, and separated clearly from military aid. We fully endorse these elements of the IDAB report. Our comments on the specific changes recommended in the Mutual Security Program follow:

1. *The IDAB proposes the establishment of an International Development Fund to operate through the International Cooperation Administration of the Department of State. The Fund would provide for technical assistance and capital for economic development in underdeveloped areas.*

We concur in the desirability of establishing a mechanism which would put the U.S. program for foreign economic development on a flexible and long-term basis. We agree that this can best be accomplished through the establishment of an International Development Fund which, at least initially, should be operated through ICA. It should operate in close coordination with other lending institutions such as the Export-Import Bank and the IBRD, and should control the local currency proceeds of PL 480, Title I sales which are used for development purposes.

We do not agree that this Fund should provide both technical assistance and capital for economic development. Funds for these purposes should be separately identified but administered in such a way as to reinforce each other. In our view technical assistance should continue to be administered on a grant basis, and funds should therefore be sought separately through an annual appropriation.

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[4] Printed from a copy that bears this stamped signature.

[4] Drafted by Barnes.

2. *Congress should appropriate funds to permit the Fund to operate for a minimum of three years without requiring additional financing. Congress would replenish working capital as the Fund's needs are demonstrated.*

As indicated in the comment on (1) above, we agree that funds for development assistance should be sought on terms which would ensure continuity and flexibility. To achieve this result and to increase the effectiveness of our economic development program so as to obtain the maximum results from the available funds, it is important that we break away from the annual cycle of illustrative programs, appropriations and pressure for rapid obligation of funds. It is also important that we be able to make effective and reasonably long-term advance commitments for sound development projects.

It is not clear, however, that a three-year appropriation is the only or the best method of achieving this result. The Department of State would favor the establishment for this purpose of an International Development Fund to be administered on a loan basis as described in the comment on (6) below, the resources for this fund to remain available until expended.

3. *The initial Congressional appropriation should be sufficient for a substantial increase in capital investment and technical assistance programs.*

We do not agree that a substantially increased appropriation in the first year is either feasible or realistic, but as indicated in our comment on recommendation 23 of the Fairless report we consider that over a period of time some increase in the amount of funds available for capital development and technical assistance may well be necessary. Availability of personnel is and will continue to be an important limiting factor in our bilateral technical assistance program.

4. *The technical assistance program should be expanded as rapidly as more skilled people can be brought into the program. Measures to attract, to train and to keep qualified personnel, including the development of a career service, should be vigorously pursued.*

We agree with this recommendation but the development of a career service should be the subject of further study with a view to achieving continuity without sacrificing the benefits derived from utilizing technical experts from private life.

5. *Separate the military and economic aspects of our foreign aid program. That portion of "defense support" which contributes to long-range economic development should be included in the appropriation for the Fund.*

We concur in the desirability of separating the economic and military aspects of our foreign assistance program, as we pointed out in our comment on recommendation 14 of the Fairless report. In our opinion, foreign assistance should then be classified into several distinct categories:

1. Military assistance, which would include the provision of military equipment and supplies and of economic support re-

quired to permit maintainance of a given approved level of foreign military forces. This assistance would be largely on a grant basis with funds sought through annual appropriations. Funds should be on a "no-year" basis and might be appropriated under continuing authorization.

2. An International Development Fund, which would make long-term loans for development purposes in the less developed areas of the world.

3. Technical assistance, which would be provided on a grant basis from annual appropriations.

4. Economic assistance on a grant basis to achieve objectives in the U.S. national interest which would not meet the criteria of the Development Fund. For this purpose, a Presidential Grant and Contingency Fund should be provided on the basis of annual appropriations.

5. Miscellaneous funds, to cover contributions to special international activities and funds for administrative expenses, to be sought on the basis of annual appropriations.

The administration of all these forms of assistance should be supervised or coordinated by a single administrator for foreign assistance.

6. The Administrator of the Fund should be given powers broad enough to permit flexibility in setting interest rates, periods of maturity, periods of grace before repayment of interest and principal is required, repayment of local currencies, and the waiver and renegotiation of repayment requirements. He should not be limited by prior Congressional allocations of portions of the Fund to any particular countries or areas.

We agree that the Administrator should have the power to set loan terms appropriate to the economic circumstances and that this should include authority to make all kinds of loans, including loans repayable in local currency. We agree that he should be empowered to renegotiate or extend repayment requirements where necessary but we consider that he should not be permitted to waive such requirements. In order to maintain the operation of the fund in close coordination with the Export-Import Bank and the IBRD, the repayment terms should not be such as would preclude the recipient from securing or servicing private investment or hard dollar loans from other lending institutions.

We also concur that the authority of the Administrator should not be limited by prior allocation of funds to specific projects, countries or regions. In this connection, we consider that the area of the fund should be broader than proposed in the IDAB Report and that its resources should be available to all less-developed countries throughout the world which are not under the control of international communism.

7. The Administrator should have the authority to contribute to international agencies devoted to economic development in underdeveloped areas.

We do not agree. We believe that U.S. contributions to international economic development agencies should be specifically appropriated by the Congress each year and should not be considered a part of a development fund. Our policy recommendations with respect to this type of assistance were set forth in the second paragraph of our comment on recommendation 10 of the Fairless report.

8. *The Fund should participate in the joint financing with private investors, the IBRD, and other financial institutions in making foreign loans. One vehicle for this which should be encouraged would be wisely-conceived regional development banks or operating corporations.*

We agree. We believe that if the Fund had broad powers to participate in joint financing with private investors, the IBRD and Eximbank, this would assist its mission of stimulating economic growth abroad. Participation in "wisely-conceived" regional banks, corporations, or projects could, in appropriate circumstances, help to mobilize resources for economic development from private investors, other financial institutions, and other governments.

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35. Letter From the President to the Chairman of the Council on Foreign Economic Policy (Randall)[1]

March 17, 1957.

DEAR CLARENCE: I agree with your recommendations on each point.[2]

So far as the letters were concerned I found something interesting in each, but believe I was more in accord with State and Committee [*Council*] of Economic Advisers than with the others.

Gene Black made some pungent comments.[3] However, I think that, in a way, he was unfair to Fairless Committee. That committee undoubtedly assumed—possibly too much so—a rather extensive knowledge of problems involved on the part of readers of the report. This gives validity to Mr. Black's criticisms, and frankly, I'd like to see more analyses of the several problems in the different countries.

This gives me the idea that, for our Congressional presentation, we should attempt short, succinct descriptions of each country or area in which we have a major interest. These could form part of the raw material out of which we fashion our recommendations. I would avoid, like the plague, long dissertations. I'm thinking of something like 150 words in each important case.

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[1] Source: Eisenhower Library, CFEP Chairman Records. This letter and the attached memorandum were handwritten by the President at sea.

[2] Reference is to the "staff recommendations" in the enclosure to Randall's memorandum, Document 33.

[3] See Document 31.

Thanks for a fine job of pointing up the questions.

With warm regard.

Sincerely

D.E.[4]

[Attachment]

Memorandum by the President

With respect to specific actions of some immediate importance.

a. That relating to inclusion of military aid in our own military budget—and placing ICA *inside* State.

We've been over this every year since my first Inauguration. I have the feeling that whatever decision is reached should not be implemented this year. We should present the case to Congress under present adm organization with statement that this will again be analyzed and report made to Congress at next Session. (If Congress insists on action this year, I'm sure we can, by cooperation reach some satisfactory answer. I'm not too impressed by details of org. as panaceas for serious ills—if any.)

b. With respect to 2 year authorizations. No use! We've tried before—and I think the best we can get is continuation of emergency or contingency funds.

c. With respect 6, 7, 8, and 11. I think we can probably come somewhat closer than we have to meeting Fairless conclusions, but the progress will be only gradual. I realize that some (head of I.C.A.) believe in "soft" loans, even to Korea. I don't say they are entirely out the window, but in that type of case have little, if any, application.

DE[4]

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[4] Printed from a copy that bears these typed initials.

36. Letter From the Secretary of the Treasury (Humphrey) to the Chairman of the Council on Foreign Economic Policy (Randall)[1]

Washington, March 20, 1957.

DEAR CLARENCE: I am sorry not to have written you before but I was away for a few days when your letter with the Fairless Committee report came.

Enclosed herewith is a memorandum prepared for me which gives some points of interest to us.[2] However, the principal thing which I find lacking in the report is the statement of the basic philosophy of just what it is that we are trying to obtain by the use of money of this kind.

It is all well and good to talk about helping to stabilize the world, etc., but it seems to me that we are in a great contest between two almost opposite ideologies: one based on freedom of the individual in the development of individual initiative for his own benefit, the fruits of his initiative to belong to him; the other based on the all-powerful state directing the activities of the individual for the benefit of the state and the common interest. The basic distinction between the two is a recognition of the rights to and protection of private property because private property is the reward for individual activity freely indulged in to whatever extent each individual desires for his own benefit. This, of course, is entirely lacking in the other system.

My great criticism of our past programs has been that we have been, in many cases, building up governmental regimes, strengthening the power of states, and thereby lessening the opportunity for the advancement of individual freedom. When we give money in large amounts for the development of projects, not only governmental in nature but also commercial, to the politicians who then happen to be in control of a country, we are tremendously strengthening the state as opposed to the individual and lessening the opportunity for the individual ever to compete with the state.

This is exactly the opposite of the ideology which we are spending so much money to defend and of which we are so proud. I think our gifts, grants, loans, or whatever in the future should be directed much more to the development of individual activity and much less to the aggrandizement of any state or the politicians temporarily running it.

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[1] Source: Eisenhower Library, CFEP Chairman Files. A copy was sent to Hollister.

[2] Not printed, but see *infra*.

It is true that there are some proper governmental activities which serve as a base for the operation of individual activity in which we can properly participate but the development of transportation systems other than highways, power and water systems, and all sorts of commercial enterprise by the state simply entrenches its system against the individual and retards the development of individual freedom. We are getting the cart before the horse because until you first have the development of individual productivity, there are few customers for the transportation, power and water systems, etc. that we have been building up.

The first need is the development of a people with initiative and enterprise, with hope of reward for their own effort. This can come only when government protects the fruits of effort, viz., the security of private property created as a result of such effort. You can count the countries anywhere in the world (especially backward ones) on your fingers where this prerequisite exists and where it is guaranteed, especially to foreigners. Under no other circumstances will foreign capital flow freely into a country, and we are doing very little to promote and require it. Wherever it does exist, the country is developing and flourishing.

This prime objective should always be first in our consideration of any case and unless it is promoted, our favorable action should be withheld. Otherwise, we will simply continue to build up a flock of foreign dictators who will be absolutely unreliable and whose friendship and support we can never count on. For dependable support, we must count only upon individual freedom-loving and individual freedom-practicing countries which believe in and want to continue to live in our way of life. There are, of course, many degrees of the extent to which this can obtain, but our support should be curtailed or entirely eliminated unless constant progress toward our own ideals is actually being made.

1) If we stick by this cardinal principle, 2) if we put the cost of supplying military equipment and military economic support directly on the Defense Department which has to agree to the force goals of the countries involved so that the cost of that support will come directly out of Defense funds, 3) if we work out a simple, cooperative coordination for the handling of defense support funds by the Foreign Economic Division of the State Department but for the account and expense of the Defense Department, and 4) if we limit actual economic aid only to those countries which are progressing in accordance with our ideals, with a comparatively few well-chosen projects in a comparatively few conspicuous places, we will be able to control and build up friends and supporters whom we can depend upon in time of need. The great complexity of the present set-up

will disappear as its organization and activities are drastically reduced and centered only on a few important, well-chosen projects.

No great structure ever was built by scattering efforts all over the place in homeopathic doses. Rigidly controlled concentration will permit finishing just one thing at a time and having it so commercially sound and well set that after once started it will continue to prosper and grow on its own without further aid and be an example of free enterprise for the community. In this way, if well done when the job is finished, we will gradually build a great and strong network of dependable associates.

Detailed comments on your numbered list are enclosed.

Sincerely,

George

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37. Letter From the Secretary of the Treasury (Humphrey) to the Chairman of the Council on Foreign Economic Policy (Randall)[1]

Washington, March 21, 1957.

DEAR CLARENCE: I have just finished reviewing your Fairless Report recommendations and compliment you upon the neat, compact form in which you have presented it. It is very apparent that all of the knotty problems in paragraphs 6, 7, 8, and 11 require further study and a subcommittee of CFEP as a preliminary step is certainly a good way to begin it.

I must raise a question about Recommendation 10. I fear very greatly that if we don't watch our step we will become involved in SUNFED and all of the other schemes which are everlastingly put forward to have us join with others in multilateral action which always results in our putting up the money and our associates deciding how to spend it. I am not adverse, of course, to joining with somebody else in putting up money together, but the only time I have ever seen it really offered was in collaboration with Great Britain and the original Aswan High Dam negotiations, when it was a case of one rabbit for them, one horse for us for the money, with equal voice in expenditures. I hope this will be very carefully watched. It sounds fuzzy to me.

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[1] Source: Eisenhower Library, CFEP Chairman Records.

Recommendation 14—I think it is not only feasible but extremely desirable to take the first step now and to transfer to the Defense budget military hardware and training items for current presentation, even though defense support and economic aid cannot be separated at this time. I think the President should be asked to reconsider this recommendation.

Recommendation 15—It has always seemed to me that the ideal set-up by ICA and State is in the nature of a self-contained bureau operating within a Department, in the same way that Customs, Internal Revenue and others operate within the Treasury, being given over-all supervision and control but effective, independent action for operations.

Best to you.

Sincerely,

George

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38. Memorandum of Discussion at the 320th Meeting of the National Security Council, Washington, April 17, 1957[1]

[Here follow a paragraph listing the participants at the meeting and item 1.]

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret; Eyes Only. Prepared on April 19 by Gleason.

2. *Review of Basic National Security Policy: Foreign Economic Issues Relating to National Security* (NSC 5602/1;[2] Memo for NSC from Executive Secretary, subject: "Review of Basic National Security Policy: Proposed Council Agenda", dated February 19, 1957;[3] NSC 5707; NSC 5707/1; NSC 5707/2; NSC Action No. 1675;[4] NSC 5707/3; NSC 5707/4; NSC 5707/5[5])

Mr. Cutler briefed the Council, in the course of which he paid particular attention to the charts which appeared at the back of NSC 5707/5 together with material to indicate in what countries of the world we were paying the largest per capita amount in the shape of our assistance programs. (A copy of Mr. Cutler's briefing note and tables are included in the minutes of the meeting.) Mr. Cutler stated that he did not know whether his figures really proved anything, but they served to dramatize where our money was going. He then asked Mr. Hollister, the Director of the International Cooperation Administration, whether he would care to comment on these charts and tables.

Mr. Hollister observed that any charts dealing with the categories of expenditure for the various parts of our military and economic assistance programs were bound to have a somewhat arbitrary character. He would take Laos as an example (this was the country which was receiving the largest per capita amount of U.S. assistance), and reminded the Council that our contribution to Laos was largely to pay the wages of the Laotian Army. Accordingly, this was in a real sense military rather than economic assistance.

Mr. Cutler then turned to Mr. Randall, the Chairman of the Council on Foreign Economic Policy, and invited him, by prearrangement, to go through NSC 5707/5. Mr. Randall observed that a great many of the questions posing economic issues relating to the revision of our basic national security policy would sound very familiar to the members of the Council. He also expressed the view that even if there were no Soviet Union or International Communism to threaten the security of the United States, there would be other reasons of national self-interest which would dictate that the United States provide assistance to certain foreign countries.

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[2] NSC 5602/1, "Basic National Security Policy," March 15, 1956, was approved by the President, March 15, to supersede NSC 5501.

[3] Not printed. (Department of State, S/S–NSC Files: Lot 63 D 351)

[4] NSC Action No. 1675, concerning basic national security policy, was taken at the 314th meeting of the National Security Council, February 28, and approved by the President, March 1. (*Ibid.*, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1957)

[5] NSC 5707, "Review of Basic National Security Policy: Basic Problems for U.S. Security Arising Out of Changes in the World Situation," February 19, 1957; NSC 5707/1, "Review of Basic National Security Policy: U.S. National Strategy," March 18, 1957; NSC 5707/2, "Review of Basic National Security Policy: National Security Costs in Relation to Total National Resources," March 19, 1957; NSC 5707/3, "Review of Basic National Security Policy: Issues Affecting the Military Elements of National Strategy," March 26, 1957; NSC 5707/4, "Review of Basic National Security Policy: Military and Non-Military Aspects of Continental Defense," March 26, 1957; NSC 5707/5, "Review of Basic National Security Policy: Foreign Economic Issues Relating to National Security," April 3, 1957; none printed. (All are *ibid.*, S/S–NSC Files: Lot 63 D 351)

Thereafter, Mr. Randall turned to the first major subject of NSC 5707/5, and read the paragraphs as follows:

> "I. *Allocation of U.S. Foreign Assistance*
>
> "1. a. In the allocation of our assistance to less developed countries, should we give more emphasis to economic development and less emphasis to military assistance?
>
> "b. Does the current allocation of aid among countries best promote U.S. security interests?"

After he had read the questions formulated by the Planning Board as above, Mr. Randall asked Secretary Dulles for an expression of opinion on the question in paragraph 1–a.

Secretary Dulles replied that he thought it quite difficult to try to answer such questions as these in general terms. It was better to try to answer the questions in relation to concrete cases in specific countries. For example, as to the very high level of U.S. resources being devoted to South Korea, we in this Administration had felt that it was worth paying a good deal to put an end to the war in Korea. Moreover, we believe that it is a lot cheaper to do what we are now doing in Korea than to be obliged to carry on a war there. Yet, even though we must stand by our commitments to South Korea, we should do what we have to do in the most economical and efficient way.

By and large, continued Secretary Dulles, we should probably put greater emphasis on our assistance to less developed countries for their economic development, and less emphasis on military assistance. The best way to accomplish this purpose without resorting to increased levels of expenditure would be for the United States to create and maintain a long-term development fund from which loans could be made to the countries we needed to assist. The most wasteful and inefficient way to do it was as we are now doing it. Secretary Dulles did not see how the International Cooperation Administration performed as well as it did, considering the manifold difficulties which it faced under the present terms of the mutual security legislation. The ICA had no means of knowing from one year's end to the next what resources Congress would permit it to make available for its assistance programs.

Secretary Dulles stated that it was his belief that if we could succeed in getting our economic development assistance onto a more or less permanent basis, with the countries we were aiding coming up with their own long-range development plans instead of accepting our plans, we could make a shift to a much more efficient operating basis. As of now, we were completely unable to give any long-term commitments for carrying out economic development programs in these countries.

Secretary Dulles added that his arguments in favor of increased emphasis on economic development did not necessarily mean increased U.S. levels of expenditure but, rather, more effective management and methods. He was "dead sure" that the impact on these less developed countries of the example set by the Soviet Union, in becoming the second greatest industrial nation in the world, was very great indeed. This impact was heightened by the fact that the Soviet achievement was accomplished in the span of a single generation. Of course, said Secretary Dulles, the people of these under-developed areas ignore the cruel and terrible methods by which the Soviets had achieved their goal; they only saw the results. Nevertheless, if the United States and the Free World cannot provide some real hope of lifting these poverty-stricken countries out of their misery, they were quite likely to follow Soviet examples and methods.

Secretary Dulles said that of course all of us would like to see our economic objectives in the under-developed countries achieved through the use of private capital investment. But some of the most critical of these under-developed countries existed under conditions where they will have to be able to see genuine hope of a transformation provided by the West, or else they will turn to the USSR. So large were these under-developed areas that if they turn to the Soviet Union the area of the Free World will shrink by another two-thirds. Accordingly, we have got to provide economic development assistance, and furthermore, we must as a nation realize more fully the importance of this assistance to our national security. Secretary Dulles added the hope that there would be a growing acceptance throughout the Free World, and especially in the under-developed countries, of the principle that the United States provided the great military deterrent to Communist aggression. If this realization became clear, it could result in a reduction in the levels of military forces maintained by these poor countries, and likewise in the level of U.S. military assistance provided to these countries. After all, it was both our own theory and, indeed, a fact, that it was the military might of the United States which provided these small countries with the real deterrent to Communist invasion.

When Secretary Dulles had concluded his comments, Mr. Randall called on Secretary Wilson for his.

Secretary Wilson pointed out that when the Armistice in Korea had been established, this Administration immediately took a look at what the United States must do to assist South Korea. There had been a kind of understanding with the South Koreans that the United States would provide a two-year program of assistance. Part of this U.S. program involved the return of many of our divisions to the United States. However, since South Korea wished to maintain a strong military position, it had proceeded to build up its own ROK divisions as our U.S. divisions returned home. The net result was that the South Korean Army was now much too big and was too great a burden for the South Korean economy to maintain. While we all agree that this ROK Army should be reduced, we have never quite stepped up to reducing the ROK military establishment. It could easily be reduced by five divisions, although such a course of action would involve the concurrent modernization of U.S. forces remaining in Korea with the new weapons.

Turning to the subject of economic assistance to South Korea, Secretary Wilson emphasized the poverty of natural resources in South Korea. There was in addition another problem connected with our assistance programs. Who was to own the facilities created in South Korea with our assistance funds? If we left them all to be owned by the Government, we would have created in South Korea the same kind of economic system which prevails now in the Soviet Union. Yet it was extremely difficult to develop a private enterprise economy in that country. This added problem needed study.

Secretary Wilson closed his comments with the suggestion that the United States should cut about $50 million or $70 million, or somewhere between five and ten percent, from the $750 million which we now provided Korea annually in the shape of U.S. military and economic assistance. We should also attempt to cut by degrees the current ROK force levels.

Mr. Randall then invited the comments of the Chairman of the Joint Chiefs of Staff. Admiral Radford referred in the first instance to the charts at the back of NSC 5707/5, and informed Mr. Cutler that since they provided statistics for the fiscal years 1956 and 1957 only, they did not provide a real picture. In order to have a true picture, these statistics should go back to the year 1950. Moreover, continued Admiral Radford, Korea was a special case. The United States could not force the South Koreans to reduce the level of their armed forces unless we could provide them with good military reasons for doing so. After all, the capital of South Korea, Seoul, was close to the border with North Korea and was in constant danger of being overrun. Admiral Radford added that he felt considerable sympathy for these South Korean people "sitting under the guns". If, on the other hand, we had in place in Korea defensive nuclear weapons, so that the South Koreans could actually see them, they might be impelled to reduce the level of their own military forces.

Admiral Radford also pointed out that there was a front line 150 miles in length defended by the armed forces of the UN and of South Korea. The North Korean Communists were constantly trying to infiltrate through this line and were often successful. According to General Lemnitzer, 14 divisions were needed to maintain this front. Moreover, if we withdrew the remaining two U.S. divisions from South Korea, President Rhee might insist that a Korean commander or a Korean deputy commander should run the whole military show in South Korea. Thus our two U.S. divisions constituted a stabilizing force against the possibility of a march by President Rhee against North Korea. If these two divisions left South Korea and thereafter hostilities broke out between the North Koreans and the South Koreans, there would be an unsolved argument as to who had started the military action.

Turning from Korea to the over-all military picture, Admiral Radford pointed out that our Government did not have the maneuverability it ought to have because of the policies followed and the commitments made by the previous Administrations. In concluding, Admiral Radford said he could not help but feel that the economic picture in the less developed countries would be greatly improved if private capital from the West were encouraged to enter these countries through the provision of guaranties by the United States and other Western governments against losses through war or serious political upheavals.

Mr. Randall then suggested that the Council turn its attention to the second major problem of economic development assistance, reading questions 2 and 3 as follows:

"*II. Economic Development Assistance*

"2. Will U.S. interests in future years require expenditures for long-term economic development greater than the current levels?

"3. Should we increase the emphasis and resources devoted to training indigenous leaders, developing skills, and providing competent advisers in the less developed countries?"

Mr. Randall then asked Secretary Dulles if he would care to comment on the second question.

Secretary Dulles replied that if one could assume that the political situation is not further seriously disturbed, he could see no reason why U.S. expenditures for long-term economic development should increase. Indeed, it might be possible to reduce these levels. Of course, he pointed out, there are certain new emerging areas of need, such as Africa. This might change the picture, although perhaps something could be done in Africa through the use of private capital.

Mr. Hollister commented that one of the most difficult problems we face is that when areas of new need open up, we do not reduce the level of our aid expenditures in the older areas. Inevitably, therefore, the level of our expenses increases.

Pointing out that we had managed a significant shift of our economic assistance from Europe to Asia in recent years, Secretary Dulles suggested that other shifts could be made in the future. The President commented that Europe represented a rather different problem since our economic assistance there was provided primarily to restore the war-damaged economy of Western Europe.

Secretary Humphrey said that he was, of course, depressed by the two or three small countries—Korea, Taiwan and Vietnam—which accounted for the bulk of U.S. assistance. What we were doing in these countries was, of course, to "maintain military symbols". But this did not result in building up their economies. Admittedly we needed these military symbols; but how could we maintain the military symbols and still carry out reasonable economic development programs. The President warned Secretary Humphrey that we could not weigh our assistance programs solely in terms of the U.S. budget. We must weigh these programs against the objectives which the United States was seeking in the world—such as peace, security, the development of international trade, and the like. The President added that he had come to look on such countries as Korea, Taiwan and Vietnam as areas from which we will get no positive return from our investment. We put the money into these countries because we needed to maintain the status quo in the world and not permit it to be upset against our national interests.

Secretary Humphrey replied that, nevertheless, if we could only solve the problem of the costs of maintaining these military symbols, two-thirds of our money could be freed for more fruitful uses. The President said that he could not deny this, but did not see how it could be accomplished until some real settlement with Russia had been reached.

Secretary Wilson repeated his recommendation that we just cut a little—say five or ten percent—from each assistance program each year. We should "pluck a few feathers". The President replied that if we looked the world straight in the face today we would quickly realize that we could not throw down the burdens which we are carrying in Korea, Taiwan and Vietnam.

The Vice President asked if he might have the floor, and said that perhaps he would find himself in a minority with respect to his answer to the second question. He said he was referring specifically to the portion of our resources that we were expending to assist Asia, Africa and Latin America. With these areas in mind—and even taking into account Secretary Dulles' view that if we shift from grants to loans our total expenditures may recede—the Vice-President said that he remained very doubtful. Moreover, if we have in mind that in the years ahead in these three areas there will be a tendency to look either to the U.S. or the USSR in choosing the path to be followed, the Vice President said he believed it was foolish to imagine that the total amount of economic assistance needed by these areas from the United States was going to go down. On the contrary, it was going to go up. This aid might not necessarily be grant aid, but the general level of our assistance expenditures would rise. In short, a substantial increase is necessary over the next ten years, though perhaps private investment would offer some help.

The President pointed out that it was the policy of this Administration to make use of private capital as far as possible to assist such under-developed areas. The Vice President said he realized this, but predicted, nevertheless, that the total cost to the United States would go up substantially over the next ten years. Moreover, if loans or private capital were not available in sufficient quantities, U.S. grant aid would have to make up the deficit.

The President said it would be interesting if anybody knew how much foreign capital had been invested in the United States a century or so ago. He bet that in any case it was very considerable. Accordingly, investment in newly developing lands was no historical novelty. It was simply that the actions of the Soviet Union made such investment now much more urgent.

Secretary Wilson complained that of course in our assistance programs we were not actually investing capital in these newly developing areas. We were giving it away. This, indeed, was a novelty in our history.

Secretary Dulles pointed out that we were making every effort now to make greater use of private capital and of loans rather than of grant aid. Secretary Dulles added that he could find nothing to dissent from in the Vice President's previous analysis.

Mr. Randall then inquired whether anyone dissented from the third question in NSC 5707/5 as set forth above. The President replied promptly that no one could dissent from admitting the need to increase the emphasis and resources devoted to training indigenous leaders in the less developed countries. There was, however, one word of caution. As we developed leaders in these new countries, we had got to be sure that we provided jobs for these leaders and something for them to lead.

Mr. Randall invited the Council's attention at this point to the next major problem, Sino-Soviet economic diplomacy, which he read as follows:

"III. Sino-Soviet Economic Diplomacy

"4. Sino-Soviet economic penetration may tend to increase the costs of exerting U.S. influence through aid programs and may make U.S. aid programs more necessary to maintain the Western position. To what extent should we seek to counter Sino-Soviet economic penetration, and by what means?"

Mr. Randall pointed out that this was such a difficult problem that he had created a special committee of the CFEP to take, as it were, a census of the weapons and measures now available in the U.S. armory to counter Sino-Soviet economic penetration. It was proposed to study this problem intensively in the CFEP, but Mr. Randall added that he would heartily welcome any guidance on the problem from the National Security Council.

The President observed that Mr. Randall was likely to meet a lot of silence from the Council on this subject, because we were obliged to decide on our reaction to each individual Soviet measure of economic penetration. After all, said the President, the Soviets have the inner lines and can move at will to confront us with problems and difficulties. Accordingly, a lot of this would have to be "played by ear".

Secretary Dulles said that it was his impression that in this area of Sino-Soviet economic penetration the United States really did not have to counter a massive Soviet effort in terms of money and resources. His reason, continued Secretary Dulles, was his belief that the Soviets do not actually have the monetary resources to finance great assistance projects in the under-developed areas throughout the Free World. As proof of this he cited the failure of the Soviet Union to make good its boast to build the High Aswan Dam for Egypt in the event that the United States refused to do so. Another instance was the manner in which the Soviets had welshed on their big assistance program for Yugoslavia. Obviously, continued Secretary Dulles, the Soviets are encountering serious troubles at home and terrible problems in the satellites. All this was in addition to the heavy armaments burden that they were obliged to carry. So, in his opinion, he said, the Russian penetration did not really involve the capability of supplying large funds; it was mostly a propaganda operation. Thus they had skillfully made use of trade fairs to lure under-developed countries to choose the Communist path in order to achieve their economic objectives. This would have to be countered.

Mr. Randall commented that, judging from what he had observed at Bangkok recently, the U.S. contribution to the trade fairs was proving very effective. Mr. Allen Dulles pointed out that we were certainly in a position to do much more by way of debunking Soviet economic diplomacy. Secretary Herter, however, pointed out that Congress has already cut out half the money which the Administration had asked for in order to carry out our program for trade fairs in foreign countries.

Mr. Randall then turned to the next problem, on payments for base rights, reading as follows:

"*IV. Payment for Base Rights*

"5. Should we undertake to pay rentals for base rights in countries with which we do not have collective security relationships (such as Morocco, Libya, and Saudi Arabia) in lieu of or in diminution of mutual security assistance?

> "a. Could establish firm maximum obligation for bases and rights of renewal.
>
> "b. Would require more definite assessment of the relation between the cost and the value of bases."

Secretary Wilson commented that it would certainly cost this country less if we undertook to pay rent for base rights in these countries instead of providing a mutual assistance program. Secretary Dulles stated that we really faced a choice of evils in this situation, but on the whole he felt that the payment of rent was the lesser of the evils. If we did not shift to a rental basis we would never be able to get off the wicket of grant aid and onto the basis of loans in our mutual security assistance programs. With this position Secretary Wilson said he agreed. The President expressed the hope that perhaps one day the United States would confront a buyer's market on bases. He said he was certainly fed up with the situation now facing us.

Mr. Randall pointed out that the Council had exceeded its time on this paper, and asked the Council to look at the final problem, on economic assistance to satellite nations, which read as follows:

"*V. Economic Assistance to Satellite Nations*

"6. Should we ask Congress to relax legal restrictions (such as those contained in the Battle Act and P.L. 480) so as to improve our ability to use economic aid in fostering the development of independence among the Eastern European satellites?"

The President observed that we certainly ought to ask Congress to relax these legal restrictions, but he doubted that we could induce Congress to agree to such relaxation. The Vice President agreed that this action should be undertaken at some point, but we should not ask Congress to relax these restrictions at the present time. Secretary Dulles agreed with this judgment, and the Vice President went on to explain that before these restrictions could be relaxed there would have to be a preparation of the American people and direct contact between Administration leaders and members of Congress to explain and justify the relaxation.

The National Security Council: [6]

Noted and discussed the report on the subject contained in NSC 5707/5, as presented at the meeting by the Chairman, Council on Foreign Economic Policy.

[Here follows item 3.]

S. Everett Gleason

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[6] The paragraph that follows constitutes NSC Action No. 1703. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1957)

39. Memorandum of Discussion at a Bipartisan Congressional Meeting, White House, Washington, May 9, 1957, 9–10:40 a.m.[1]

The following were present:

President Eisenhower

Vice President Nixon

Sen. Bridges
Sen. Dirksen
Sen. Fulbright
Sen. Green
Sen. Hayden
Sen. Hennings
Sen. Johnson
Sen. Knowland
Sen. Mansfield
Sen. Russell
Sen. Saltonstall
Sen. Smith
Sen. Wiley

Rep. Albert
Rep. Arends
Rep. Cannon
Rep. Chiperfield
Rep. Gordon
Rep. Halleck
Rep. Martin
Rep. McCormack
Rep. Morgan
Rep. Rayburn
Rep. Taber
Rep. Vinson
Rep. Vorys

Mr. John Foster Dulles, State
Mr. Christian Herter
Mr. Robert C. Hill

Mr. Walter George, Spec. Assistant to the President
Mr. James P. Richards, Spec. Asst. to the President

Mr. Donald A. Quarles, Defense
  Mr. Mansfield Sprague
  Colonel Harry H. Critz
Mr. John B. Hollister, ICA
  Mr. Leonard Saccio
  Mr. Robert Barnes

Gov. Adams
Gen. Persons
Mr. Hagerty
Mrs. Wheaton
Gen. Goodpaster
Dr. Hauge
Mr. Martin
Mr. Harlow
Mr. Gruenther
Mr. Shanley
Mr. Minnich

MUTUAL SECURITY PROGRAM—BIPARTISAN MEETING

(The following is the gist of the President's opening statement as reconstructed following the meeting. It is not to be regarded as verbatim text.)

It is clear that our budget is primarily a military matter, for almost $41 billion of it is devoted to defense items. And that figure is not one to be thought of as having been recklessly conceived. The Services gave their agreement to the level of $38.5 billion only after the most agonizing of studies and after planning for a good many months.

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[1] Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Confidential. Prepared by Minnich.

What do we get for that vast sum? Only the policeman on the corner to see that the robber doesn't get into our house. There is even a question if it is enough. Of one thing you can be certain, military programs already began and approved by the Congress will have a greatly increased cost in the years ahead, there is no doubt of that.

We must do something to neutralize the threat which faces us. For two reasons, a democratic country like ours cannot depend solely on building a fortress and retiring within it—tiredness or weariness will eventually set in or we get controls that nobody wants; or we will be finally hemmed in by a ring of unfriendly countries that have been taken over by Communists or seduced to their side.

We cannot just sit and wait for something to happen to eliminate the threat. The best that we can hope to happen is the deterioration of the Communist system as a result of internal unrest or of revolts in the satellites. But those things won't happen if we merely sit behind an array of planes and guns and tanks. This is not a static world. It is extremely dynamic, marked especially by the growing force of nationalism which I consider even stronger than Communism. We are all agreed, I am sure, though we may differ in regard to methods or details, that we must wage peace. We can't wage peace just from the pulpit. Secretary Dulles and I are engaged constantly and earnestly in studying practical steps by which we can improve the international situation.

I would be the last to say that we have reached a final or complete answer on how to do this. However, all of the many groups who have studied the matter, and Congress has also made studies, have come to the conclusion that this so-called foreign aid is misnamed. It should be designated rather as an investment for peace—an investment that does, of course, require some amount of sacrifice. If mistakes have been made, as I am sure some must have been, in this effort, at least the mistakes are reckoned in dollars and not in lives.

The program that we've settled upon after intensive consideration is one providing both direct military programs and economic programs costing together less than $4 billion. Since my Budget Message, the Department of Defense has been able to find areas for savings of about $500 million that bring the total down to $3.(80) billion. Now this is just about 7% of the strictly military items in the budget, and it is only about 15% of what those countries which we assist will themselves be spending. It is the military assistance part of mutual security that I mean when I say 7% and 15%.

As for the economic part, one of the great difficulties we have had is that there is too much rigidity in the operation of it. We have to plan specific programs and projects before enactment of the bill, we have to justify them to the Congress, and during all this the countries concerned develop a feeling of having a vested right to the full amount that has been discussed. We need much greater flexibility as to the timing of these projects and as to deciding on them, so that they can be determined exactly at the moment developments occur that warrant them. For instance, I am certain the Secretary of State believes that the $10 million we were able to give Jordan was what kept that country in being, as it helped to enable that gallant young King to keep control.

Unless we succeed in finding a way to reduce the threat, we cannot reasonably expect to accomplish substantial reductions in the budget. Of course, if it were possible to eliminate our farm programs or stop the grants to the States or end the Federal assistance given for (disasters) or reduce the benefits authorized for veterans, some money could be saved. But I think all of us here are too realistic to think that great savings can be made in those programs. Otherwise, great savings will be made only in the defense area—and that can be done only at great risk to our security until the threat is reduced. Just last year Congress put more money into defense programs. I did not oppose that—the Congress has a responsibility and also experience, and we know that these are very "nice" judgments that are made in setting expenditures at any particular level.

This military assistance program, I repeat, is 7% of what we put into things that are negative and sterile in that they are not producing items for public consumption. Over and above that, there are economic programs amounting to $1 billion, eighty million. (The President then repeated the amounts in response to a question from Speaker Rayburn.)

I would rather see anything else in the budget cut than these programs for waging peace, including both the economic and the military parts of our Mutual Security program, our Information program, and our State Department programs. They are all parts of a parcel that we just must not neglect.

Now, I am asking the Secretary of State to set forth the details of this proposal.

Sec. Dulles said that it was very apparent, in the meetings he had attended in Asia and Europe, how important is the United States to the existence of the treaty organizations; indeed, these would fall apart if the U.S. effort appeared to be diminishing, and the Communists would be able to achieve their goal of encirclement of the U.S. Should that happen, the cost of our defense would increase greatly.

Mr. Dulles informed the Leaders that the Mutual Security Program would be presented to the Congress in a different way this year so as to segregate the defense items more from the economic. A total of $2.8 billion, to be appropriated to the President, would be requested for the defense items: $1.9 billion for "Hardware" and $.9 billion for Defense Support, to enable such countries as Viet Nam, Korea, Turkey, and others to maintain armed forces at a level their economies could not alone support. This does not cover any long term economic aid, merely short-term and immediate things. The hardware program will be administered by DoD, the other by ICA; and both will be under the broad policy guidance of the President and Secretary of State. This grouping permits a more effective presentation and justification.

In the economic part of the program, for which $1 billion would be asked, the most novel item is the creation of the Development Loan Fund to allow "soft" loans (repayable in local currencies and interest-free for necessary periods) designed to increase the economic potential of the countries involved. It is in our interest to do this by loans, even soft ones, rather than outright grant because the obligation to repay would encourage greater care by the recipient countries in the selection of projects. For the DLF, a request would be made for $500 million for appropriation this year, and for authority to borrow from Treasury up to $750 million in each of the coming two years.

Mr. Dulles stressed the ability for development that capitalist societies must have; if they are not dynamic, if they do not hold hope for development, these new nations will turn to the communist system.

The Secretary then outlined the remainder of the program: $155 million for the Technical Cooperation Program, $125 million for miscellaneous programs, and $300 million for the Emergency Grant Assistance fund. Of the $300 million item, $100 million was already programmed, and $200 million would be kept for emergencies yet to appear.

Concluding his statement, Sec. Dulles said that the Administration is aware of the fact that operation of the Mutual Security Program has not been perfect, and that an appearance of discrediting it could be given by seizing on little things here and there. His own feeling was that it is a wonder we do as well as we have—any organization of this sort is bound to have defects. But to try to discredit it is to take a very false view; this is needed critically for waging peace, and you don't cut off the ammunition from a soldier in the field simply because some of his shots miss their target. He asked the Leaders to consider Iran: it was virtually under Communist control a few years ago but is now a strong ally. Our work there was not done in the most efficient way, but it was done. The Administration certainly doesn't claim perfection in all this, but it does claim that the demonstrated results are worth so much more than the dollars put in that it would be folly, as the President pointed out before, to do away with the program. It constitutes 10% of our security budget, but to do away with it would decrease our security by a lot more than 10%.

Mr. Hollister then read a statement on the importance of Mutual Security, touching on Communist efforts, on the fact that 75% of the Program is military in nature, and on the need for putting more of our economic assistance on a loan basis. He noted how the needs of the world are limitless while our resources are limited; hence the need to set priorities. He voiced the opinion that through the military aspects of the program, Korea, Taiwan and Viet Nam had been saved from communism, as had also Thailand, Guatemala and perhaps Jordan through its economic aspects.

Mr. Hollister said the Administration would request that Military Assistance be a continuing authorization unless cancelled by Congressional action, and that appropriations be on a "no year" basis, and that similar provisions be made for Defense Support and for the Development Loan Fund. For Technical Cooperation, funds appropriated should remain available on a fifteen month basis. He pointed out that the Special (Emergency) Assistance funds were intended to be used in countries where we do not have a military alliance and where a Development grant or loan would not be appropriate. These would be mostly grants, but loans would not be precluded. He then compared the FY '57 and FY '58 programs—of approximately equal size—noting that the defense items dropped from 82% to 72% of the total, resulting from experience this year and from the intent to handle some things through the Development Loan Fund that are being done in FY '57 through Defense Support.

Sen. Johnson inquired why it was necessary to increase the contingency fund. Mr. Hollister replied that the increase was not large, and would have to cover some items that no longer would fall in the loan category or military programs. Sen. Knowland ascertained that P.L. 480 funds were not included in this presentation.

Mr. Hollister explained the difficulty ICA had in getting projects planned and funds allocated within a short span of time or having those funds lapse. They had the dilemma, he said, of being criticized either for long delays in approvals or for committing projects without a sound basis. He said the agency hopes to make loans in a way that would also encourage a greater flow of private capital to desirable projects. He noted that the International Bank and the Ex-Im Bank make only "hard" loans, and that it would be necessary to coordinate closely the DLF with those so it doesn't infringe on the "hard" loan area. He pointed out ICA's hope to get away from "country" programs since these are less flexible and are difficult to reduce after a country comes to think it has a vested right to a certain program level.

Regarding Military Assistance, Mr. Sprague said our programs have been adequate, that the need for them continues, that our allies have increased their forces and effectiveness, and that DoD is convinced our assistance programs must be kept up-to-date and improved. With the aid of some charts, he showed the areas of communist activity since 1946, military and economic, and how our assistance program and overseas base activities are geographically related to the threat. He confirmed Sec. Dulles' earlier statement that withdrawal of our assistance would cause the breakdown of our treaty arrangements—NATO, SEATO, ANZUS,[2] etc. He stressed that our national security is strengthened at relatively low cost by these arrangements. At the request of Senators Wiley and Knowland, he gave some statistics on the low cost of equipping and paying a Turkish soldier in contrast with that for a U.S. soldier. He also compared the security expenditures and accomplishments of the U.S. and of our NATO allies between 1950 and 1956, concluding that it is impossible to estimate what it would have cost the U.S. to accomplish what the Allies have done, indeed it would be almost inconceivable that the U.S. could have done it at any cost.

Mr. Sprague then noted how our assistance program has shifted from Europe (now only 25% of the total) towards the Far East. He also stated that the carryover for FY '58, as figured in January, would be $4.4 billion, NOA would be $2.4 billion, expenditures $2.2 billion, leaving a carryover of $4.6 billion for '59. However, Defense has been working to reduce the carryover and it now appears, he said, that NOA need be only $1.9 billion. The $500 million reduction would be accomplished through improved planning, screening, funding, better administration generally, and—in terms of matériel—savings in ammunition, spare parts, and consumables.

85% of the military assistance money is spent within the United States, Mr. Sprague said.

Rep. Cannon noted that the Russians are said to have the second-largest Navy; he wondered if that meant in numbers or in effectiveness. Mr. Sprague said it pertained to numbers, and he deferred to any JCS view there might be about effectiveness.

Sen. Russell said he was impressed by the $500 million saving accomplished, and he asked whether comparable savings might be made in the whole $38.5 billion Defense budget, thus solving most of the present fiscal problem. Mr. Quarles replied that the Mutual Security savings stemmed mostly from the time period involved, and that this program was finally being brought into the same better management program that had already been in effect for some time in the DoD budget effort. It had lagged, as regards Mutual Security, primarily because of the difficulty of the spare parts problem. The President explained further that as the U.S. adopts new equipment, the need for spare parts decreases, whereas the older equipment then gets used in other areas and spare parts are needed there. Sen. Russell commented that that aspect of the program had always been primarily a bookkeeping transaction, so that really it was just a matter of marking down those items. The President replied that he had not regarded it that way. Mr. Sprague said that most of the $500 million was made up of "one-shot" savings. Sen. Russell rejoined that he hoped the "better management" of which Sprague spoke would not be a "one-shot" item.

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[2] The ANZUS Council was established under the 1951 Security Treaty signed by Australia, New Zealand, and the United States. For text of the defense agreement, see Department of State *Bulletin*, July 23, 1951, p. 148.

Sen. Knowland ascertained from Mr. Hollister that the unexpended balances on the economic side of the program had been running at about the same level for the past three years. Mr. Taber referred to an unexpended balance of $500 million this year and asked why it had not been obligated—wasn't it really needed? Mr. Sprague stated it resulted from the various savings that had been developed without harm to the program. He said also that the carryover as a whole was now reduced just about to a minimum, and that it couldn't go down more because modern weapons have a long leadtime.

Sen. Saltonstall inquired about the effect the "soft" loans of the DLF would have on the International Bank and the Ex-Im Bank, both of which had to require repayment in hard currencies. Sec. Dulles said that would necessitate great care in coordinating the two types of loans, but that it was not difficult to distinguish which type of loan should be used for a particular project. The real problem, Sec. Dulles felt, would be whether to make an outright grant or a loan. He thought it better generally to make loans, but in either event there would be problems. The President cited the merits of "soft" loans when used in ways to build up a country's economy, thus leading to the time when "hard" loans would be feasible. Sec. Dulles felt some projects might be financed partly by "soft" loans and partly by "hard", with the latter representing the equity in the project. Mr. Hollister said some of this splitting had already been done by ICA.

Mr. Mansfield stated the interest of many in Congress with improving efficiency and ending overlapping. He asked why funds might not be appropriated direct to Defense and to State, putting an end to ICA.

The President replied on how the Administration had been worrying this subject since 1953, carrying out two complete reorganizations thus far. The essential thing, he said, was to keep it under the general policy guidance of State; other than that, he was ready to confer with the Leaders at any time on this particular, for he was heartily in favor of any method that would bring greater economy and an improved working together.

Rep. Vorys expressed his opinion that the way things stood now pretty much completed the reorganization work needed in this area.

The President inquired as to the best time for transmitting the Special Message on this. Mr. Rayburn thought either of the next two days, when the House would be in session, would be satisfactory. Sen. Johnson had no particular time to recommend.

Sen. Dirksen recalled that in connection with the Mid-East Resolution[3] specific proposals were to be brought to the attention of Congress; he wondered if this would be true of the DLF. Mr. Hollister said they had not done any planning for such a procedure, that he doubted that Congress would want to go into every project under the DLF, and that it would cause undesirable delay in deferring action on projects until after Congress could study them. He thought further light on this question could be had later, after the first year of experience.

The meeting then concluded with Speaker Rayburn's jest that he could not see any preparations being made for lunch, so they would go on back to the Hill!

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[3] Presumably the U.S.-sponsored resolution on the Palestine refugee question adopted unanimously by the General Assembly, February 28, 1957; for text, see *ibid.*, April 8, 1957, p. 589.

40. Memorandum of Discussion at the 348th Meeting of the National Security Council, Washington, December 12, 1957 [1]

[Here follow a paragraph listing the participants at the meeting and item 1.]

2. *U.S. Security Effort Overseas, FY 1958 and FY 1959* (NSC Action No. 1812; [2] NSC 5707/8; [3] Memo for NSC from Executive Secretary, subject: "U.S. Security Effort Overseas, FY 1957", dated November 29, 1957; [4] Memo for NSC from Executive Secretary, subject: "U.S. Security Effort Overseas, FY 1958 and FY 1959", dated December 9, 1957) [5]

Mr. Cutler delivered a report on the U.S. Security Effort Overseas, FY 1958 and FY 1959, following an outline (copy of which is attached [6] to this memorandum). When Mr. Cutler had reached his discussion of trends which could be perceived after analysis of the charts and data which he had presented, the President expressed surprise that we were apparently asking for less money for the mutual security programs in FY 1959 than we had earlier agreed that we needed.

With respect to Mr. Cutler's comments on the development loan fund, the Vice President inquired whether we had not previously argued, in defense of this development loan fund, that it involved an increased trend toward loans for foreign assistance coupled with a decrease in grant assistance.

(At this point the President temporarily left the meeting.)

The Vice President continued by pointing out that we must make this point clear to the Congress because the totals for our military and economic assistance remained about the same, and this would require explanation to the Congress.

Mr. James Smith, the Director of ICA, predicted that loans would probably be down in the next fiscal year, and that grants would remain about the same.

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret; Eyes Only. Prepared on December 13 by Gleason.

[2] NSC Action No. 1812, concerning the U.S. security effort overseas during fiscal year 1957, was taken at the 342d meeting of the National Security Council, October 31, and approved by the President the same day. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1957)

[3] NSC 5707/8, "Basic National Security Policy," June 3, 1957, was approved by the President, June 3.

[4] Not found in Department of State files.

[5] Not printed. (Department of State, NSC Files: Lot 67 D 543, NSC 5707 Series)

[6] Not printed.

(At this point Secretary Dulles also left the meeting.)

Mr. Cutler then said that Mr. Smith wished to make a statement at this point. Mr. Smith explained that he wished to speak to the economic rather than the military side of the mutual security program. He pointed out Khrushchev's challenge to the United States some three weeks ago, and Khrushchev's statement that the Soviet Union would soon surpass the United States in competition in the field of peaceful production. There was clear evidence, continued Mr. Smith, that Khrushchev has put this program to work. After citing various instances of Soviet assistance and activities in the underdeveloped countries, Mr. Smith also pointed out the role of Communist China and the Satellites. He also listed briefly what assistance was being given by the Soviet Union to non-Satellite nations in terms of credits or other forms of assistance. He believed that this economic competition from the Soviet Bloc posed a very serious challenge to the United States and the Free World. He accordingly said he strongly supported the figures just presented by Mr. Cutler for the Mutual Security Program for FYs 1957, 1958 and 1959. Beyond this, Mr. Smith recommended that the United States call for the establishment of a long-term international economic corps for peace, whose function would be to assist the less-developed nations. The National Security Council must respond to the challenge offered by Khrushchev.

When Mr. Smith had finished his statement, Mr. Cutler reverted to the question he had posed at the end of his presentation—namely, the desirability of asking the Department of Defense and the Joint Chiefs of Staff to undertake a study with respect to our military assistance programs in the period 1960–65. He first asked Secretary Quarles to comment on the desirability of such a study.

Secretary Quarles replied that the United States must certainly look ahead, but that there were very great uncertainties in so doing. For example, we do not know what the Soviets will be doing in the period 1960–65, although whatever they did would obviously affect what we do. Another factor was the progressive improvement in the economies of our allies and, accordingly, of the portion of the burden which these allies could take over from the United States. Perhaps the best way to approach such a study as that proposed by Mr. Cutler would be to do it in terms of a probable range. In any event, the Department of Defense would do its best in what would certainly be a very complicated task.

Mr. Cutler pointed out that of course he did not expect complete accuracy in a study covering future years, but was seeking only general orders of magnitude. He then asked Admiral Burke, as Acting Chairman of the Joint Chiefs of Staff, for his views on the feasibility of the proposed study.

Admiral Burke pointed out that it would be very hard for the Joint Chiefs of Staff to produce anything very meaningful. The assumptions chosen for such a study would almost certainly provide the answer to the problem. In order to make a meaningful study we would have to know more than we possibly could know about a great many factors.

In view of Admiral Burke's comments, Mr. Cutler wondered whether, instead of calling for the study he proposed, the Council could ask the Department of Defense and the Joint Chiefs of Staff to tell the Council what might be accomplished in the way of a useful study.

The Vice President expressed doubts that anything useful could be anticipated from the study proposed, and went on to state that it had occurred to him, in looking at the charts and the data which Mr. Cutler had used, that the matter of greatest concern to the United States in the future was where emphasis should be placed as between military and economic assistance. In the first place, said the Vice President, it seemed clear to him that the Soviet Union was now placing much more emphasis on economic programs than it had previously done. From our own standpoint, we must not allow ourselves to be so obsessed with the patterns of the past that we were incapable of changing the pattern and changing the emphasis. The Vice President believed that we must give much more thought and attention to economic assistance and, wherever possible, less to military assistance. He added that of course in certain countries, like Korea and other areas where the Chiefs of Staff felt that military aid was needed at a high level, we could not change this emphasis. On the other hand, there seemed to be areas where we could increase our economic assistance, and in general economic assistance was less costly than military assistance.

Admiral Burke commented that the Joint Chiefs of Staff would agree with the point made by the Vice President. The latter went on to observe that if we were not very careful in our analysis of the facts and figures which had been presented today, there was danger that we would continue in our old ruts and be unwilling to try out any new paths. The economic side, he said, was the wave of the future.

Mr. Allen Dulles confirmed the view that the Soviets were shifting emphasis to economic from military assistance. He added that in many underdeveloped countries—such as Egypt and Syria—the receipt of armament had reached, so to speak, the saturation point. Such countries had already received larger armaments than they could effectively support or use.

Secretary Quarles commented that, along the lines suggested by the Vice President, and as one analyzed our military assistance programs, one finds that a large part of the pressure for military assistance from foreign countries derived from local tensions and local conditions rather than as a response to our great problem of containing Communism. To Secretary Quarles this meant that the United States should make a greater effort to quiet down local tensions. If we succeeded in doing this we would be able to cut down on our military assistance programs and increase the amounts available for economic assistance.

The Vice President commented that another factor which had always tended to emphasize our military assistance programs over our economic assistance programs, was the comparative ease of selling our policy of military assistance to the American people and the Congress, and the difficulty of selling our program of economic aid.

At this point Mr. Cutler suggested that the Council request the Department of Defense and the Joint Chiefs of Staff to see what they could suggest in the way of a study and report to the Council before they actually undertake any study.

Secretary Herter pointed out that in the UN today the United States was going to propose a greatly expanded technical assistance fund for economic development.

(The President returned to the meeting at this time, 10:30 a.m..)

Mr. George Allen, Director of the U.S. Information Agency, said he felt that many people in the world believe that all our answers to world problems are military answers. This was a mistaken view which we must nevertheless correct. At present we give too many opportunities to Soviet propaganda describing us as warmongers. To illustrate his point, Mr. Allen read excerpts from a speech which was being made today by the Secretary of Labor. Mr. Allen pointed out that he was far from insisting that the public relations factor was the governing factor; but it was certainly an important factor.

The President commented that in terms of our setting forth our military capabilities before the world, we were damned if we did and damned if we didn't. He was not sure that Mr. Allen's point was correct. The problem was how to inform our own people in a logical way of our military capabilities, without at the same time scaring our allies to death.

Mr. Allen replied that there was even an unfortunate impression going around abroad that the President was going to the forthcoming NATO meeting in order to beg our allies to permit us to station atomic weapons on their soil. The President answered that this, of course, was completely erroneous. We were only trying to assure our allies of our support if they were attacked.

The Vice President, addressing the President, said that the President could give assurance on the score of our strength in very short order at the NATO meeting. But it also seemed to the Vice President that the great appeal that the President exerts in the world today is that he was considered to be a man of peace. Accordingly, the Vice President thought that the President's greatest contribution would consist in a re-affirmation of the peaceful objectives and purposes of the United States. Mr. Allen said that he could not agree more.

The National Security Council: [7]

a. Noted and discussed an oral presentation on the subject by the Special Assistant to the President for National Security Affairs; in the light of the enclosures to the reference memoranda of November 29 and December 9, 1957, and of the statement of issues regarding the Mutual Security Program which had been raised by Mr. Hollister, copies of which were distributed at the meeting.

b. Noted that the Department of Defense and the Joint Chiefs of Staff would consider and report to the Council on the feasibility of making a study along the lines suggested at the meeting by the Special Assistant to the President for National Security Affairs. Taking into account the tremendous changes in weapons technology and the resulting problem of modernization and provision of advanced weapons, the suggested study would (on the assumption of a continuation of present basic policy) review the missions, force levels and equipment programs for the nations receiving U.S. military assistance in the period 1960–65, and estimate the general order of magnitude of the probable costs thereof.

c. Noted an oral statement by the Director, International Cooperation Administration, on the need for the United States to respond to the Khrushchev challenge in "the peaceful field of trade", and the Director's proposal to call on all of the nations of the world to establish a substantially more effective international economic corps for peace. (This proposal will subsequently be submitted in writing for appropriate consideration.)

Note: The action in b above, as approved by the President, subsequently transmitted to the Secretary of Defense for implementation.

The action in c above subsequently transmitted to the Director, ICA, for submission of a written proposal.

[Here follow items 3 and 4.]

S. Everett Gleason

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[7] Paragraphs a–c that follow constitute NSC Action No. 1828. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1957)

United States Economic Defense Policy: United States Interest in Maintaining Multilateral Strategic Controls on Trade With the Soviet Union, the People's Republic of China, and Certain Other Nations [1]

41. Editorial Note

At its 230th meeting on January 5, 1955, the National Security Council discussed controls on trade with the People's Republic of China as spelled out in NSC 5429/5. For text of the memorandum of discussion at this meeting, see volume II, page 2. NSC 5429/5 is printed in *Foreign Relations*, 1952–1954, volume XII, Part 1, page 1062.

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[1] For previous documentation, see *Foreign Relations*, 1952–1954, vol. I, Part 2, pp. 817 ff. For documentation on U.S. policy toward the People's Republic of China, see volumes II and III.

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42. Telegram From the Department of State to the Embassy in the United Kingdom [1]

Washington, January 7, 1955—6:14 p.m.

3536. Excon. Embassy London should deliver following personal message from Dulles to Eden:

(Verbatim text follows)

I want to express to you my deep concern over the few strategic trade control problems which, despite the close cooperation of our two governments on these matters, are unresolved. The problems to which I refer are in essence the hard core of separate issues remaining from last summer's negotiations which resulted in broad agreement among the COCOM countries on a greatly curtailed list of strategic items. They relate specifically to the control of rolling mills, electric generators and ship sales, to which must be added the new problem of great concern with reference to copper wire and cable.

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[1] Source: Department of State, Central Files, 460.509/1–755. Secret; Priority. Repeated to Paris.

I will not burden you with the detailed aspects of these problems which have been and can continue to be capably handled by Mr. Thorneycroft and Mr. Stassen. Rather, I wish to emphasize my hope and expectation that, despite the difficulties, parliamentary and otherwise, which, in different ways, we both face, we can attach paramount weight to the strategic factors presented by these problems, i.e., the relation of the particular items to military security, and the necessity of prompt agreement on these pending issues to preserve the working effectiveness of the institutional arrangements which we and other friendly countries have supported in our mutual security interests. I appreciate that the denial of any specific shipments does not in itself assure our security, but failure adequately to limit certain items can contribute dangerously to the build-up of the Soviet war-making potential, and I believe that these particular goods should not move to the Soviets in such quantities as to constitute a real contribution to the potential military strength of the Soviet bloc. I am also convinced that by failure to resolve our differences, we endanger the continued existence and effectiveness of the multilateral organization in Paris which has been set up to deal with the whole program of security trade controls. There is a further element which I know you especially will appreciate. That element is my apprehension that avoidable, but dangerous, frictions in Anglo-American relations could result from delivery to the Soviets of such sensitive items as these to an extent which, frankly speaking, the Executive Branch of my government would find it difficult to justify in security terms to our Congress and people.

Mr. Stassen is despatching to Mr. Thorneycroft, today, a more detailed letter.[2] I trust that you will share my concern and hope that our governments may soon agree on these matters and then concert to convince other participating countries of the necessity for prompt concurrence and appropriate action.

Dulles

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[2] Telegram 3535 to London, January 7, transmitted Stassen's letter to the Embassy and instructed the Embassy to deliver it to Thorneycroft. The letter, which detailed the U.S. position on the sale of rolling mills, electric generators, ships, and copper wire and cable to Communist countries, was written in reply to Thorneycroft's letter to Stassen of December 15. (*Ibid.*)

Draft versions of the letters from Dulles to Eden and from Stassen to Thorneycroft were discussed in detail at a meeting of the Economic Defense Advisory Committee (EDAC) on January 3. The minutes of that meeting are *ibid.*, Economic Defense Files: Lot 59 D 665.

43. National Intelligence Estimate[1]

NIE 100–55 *Washington, January 11, 1955.*

CONTROLS ON TRADE WITH COMMUNIST CHINA[2]

The Problem

To estimate the political, economic, and strategic consequences to China, Sino-Soviet relations, and the non-Communist world of each of the following courses of action:

a. Maintenance of present levels of non-Communist controls on trade with China and the European Bloc;[3]
b. Multilateral relaxation of non-Communist controls on trade with China to the level maintained on trade with the European Bloc;
c. Relaxation of non-Communist controls on trade with China to the level maintained on trade with the European Bloc, but with the US unilaterally maintaining various controls on trade with China;
d. Multilateral raising of non-Communist controls on trade with China.

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[1] Source: Department of State, INR–NIE Files. Secret. National Intelligence Estimates were high-level interdepartmental reports appraising foreign policy problems. NIEs were drafted by officers from those agencies represented on the Intelligence Advisory Committee (IAC), discussed and revised by interdepartmental working groups coordinated by the Office of National Estimates of the CIA, approved by the IAC, and circulated under the aegis of the President, appropriate officers of cabinet level, and the members of the National Security Council (NSC). The Department of State provided all political and some economic sections of NIEs.

According to a note on the cover sheet, the following intelligence organizations participated in the preparation of this estimate: the CIA and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff. All members of the IAC concurred with the estimate on January 11 with the exception of the representatives of the Atomic Energy Commission and the Federal Bureau of Investigation, who abstained on the grounds that the subject was outside their jurisdiction.

[2] For general estimates on China and on the Bloc, see NIE 13–54, "Communist China's Power Potential through 1957" (3 June 1954); NIE 10–7–54, "Communist Courses of Action in Asia through 1957" (23 November 1954); and NIE 11–4–54, "Soviet Capabilities and Probable Courses of Action through Mid-1959" (14 September 1954). [Footnote in the source text. NIE 13–54 and NIE 10–7–54 are in *Foreign Relations*, 1952–1954, vol. XIV, Part 1, pp. 445 and 930. NIE 11–4–54 is printed *ibid.*, vol. VIII, p. 1248.]

[3] As used herein, the term "European Bloc" includes the USSR and the Soviet Satellites in Europe. The term "Bloc" alone is used to cover all iron curtain countries including Communist China. Unless otherwise specified, the terms "China" and "Chinese" are used in lieu of "Communist China" or "Chinese Communists." [Footnote in the source text.]

Conclusions [4]

A. China's objective of creating an industrialized and militarily powerful state cannot be achieved without extensive imports of capital goods and military equipment. The rate of advance of China's power potential thus depends to a large degree on the volume of China's foreign trade. Except to the extent that the USSR extends grants or credits, China's capabilities to import will be limited by its capabilities to export. (paras 1, 19)

B. China has been able to import from the European Bloc those commodities, including transshipped Western goods, required for a rapid expansion of military strength and achievement of industrial output somewhat higher than previous peaks. It is committed to a program integrating its economy with that of the Bloc, in consonance with the Bloc policy of autarky. Nevertheless, at present, both Moscow and Peiping give every indication that they regard it in their best interest to increase somewhat their present trade with non-Communist countries and are exerting efforts to undermine trade controls. (paras 11, 12, 14, 18)

C. While trade controls have not significantly hindered China in obtaining essential commodities, they have reduced the volume of China's imports by altering its markets and by increasing its transportation costs and procurement difficulties. We estimate that these effects currently represent an annual loss to China of roughly $200 million. This amount would be sufficient to enable China to increase by 50 percent its imports of capital goods, the scarcity of which is particularly serious for the Chinese economy. (paras 11, 12, 13, 15)

Effect of Maintenance of Present Levels of Trade Controls

D. Maintenance of present levels of trade controls against China would continue the present effects virtually unchanged although

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[4] The Director of Naval Intelligence and the Deputy Director for Intelligence, The Joint Staff, believe that any approach to the problem of relaxation of trade controls should be viewed in the light of over-all Communist objectives, and specifically the attitude and actions of Communist China toward the US and the other Free World nations. They therefore consider it essential to the broad view of the problem that the following be inserted ahead of the present first Conclusion of this estimate:

"There is no indication that the fundamental hostility of the Communists toward the Free World has abated, nor that, in pursuit of their ultimate objectives, the Communist program of attaining self-sufficiency within the Bloc at a high level of military and industrial development has changed. Moscow and Peiping almost certainly estimate that the qualitative and quantitative gains, which would ensue from increased trade with the Free World, will accelerate this planned expansion of their economies, as well as provide opportunities for political gain through economic penetration. We do not believe that any relaxation of controls on trade with Communist China will lessen this hostility, nor will it tend to change the course of Communist China's foreign policy." [Footnote in the source text.]

China will be able to take advantage of the recent relaxation of controls enforced against the European Bloc and import additional CHINCOM[5] controlled items via European Bloc countries. While transshipment might add to the total cost of Chinese imports, the additional goods procured would allow the European Bloc greater flexibility in meeting Chinese requirements. (para 19)

E. We do not believe that maintenance of trade controls at present levels would produce any significant changes in the basic patterns of Sino-Soviet relationships or of Chinese foreign policy. Chinese propaganda would continue to hold out to other countries the prospect of advantageous trade with China, in order to arouse resentment toward the control system and to encourage policy conflicts with the US. Chinese efforts to achieve political gains in Asia through economic penetration would continue to be hindered by the maintenance of controls. (paras 20, 21, 22)

F. If China refrains from provocative military or political actions, pressure would increase in most CHINCOM countries for a reduction of controls to the level applied against the European Bloc. The position of the UK, which plays a major role in influencing the attitude of CHINCOM countries, will continue to be governed more by political than by economic considerations. These countries probably would not override strong US objections to a major change in policy nor would they be likely to take unilateral action to reduce controls. Maintenance of present CHINCOM controls would, however, be a mounting source of irritation in US relations with other CHINCOM countries. (paras 25, 27)

Reduction of Controls on Trade with China (CHINCOM Controls) to the Level Maintained with the European Bloc (COCOM[6] Controls)

G. In this situation, almost all the effects of present trade controls in increasing China's import costs and reducing its export receipts would be removed. We estimate that within two years after controls were lowered China might add about $200 million to its annual earnings of foreign exchange, provided its leaders decided to export to the amount necessary to yield these earnings and provided markets were available. However, China would not be able to secure any commodities that it cannot now secure through transshipment. (paras 28, 32)

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[5] Fifteen countries currently participate in the China Committee (CHINCOM) of the Consultative Group of countries organized to deal with problems arising from the control of trade with Bloc countries. CHINCOM controls are those controls presently applied by these countries against China. Member countries are: Belgium, Canada, Denmark, France, Greece, Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Turkey, the UK, and the US. [Footnote in the source text.]

[6] COCOM controls are those applied against the European Bloc (the USSR and the European Satellites) by countries which are members of the Coordinating Committee (COCOM) of the Consultative Group. The membership of COCOM is identical with that of CHINCOM. [Footnote in the source text.]

H. China's foreign exchange earnings would almost certainly continue to be used primarily to procure imports of capital goods and other commodities essential to building the modern industrial sector of the economy, and to modernizing the armed forces. We believe that China in the foreseeable future will not be interested in substantial imports of consumer goods. (para 33)

I. We do not believe that a relaxation of trade controls would, at least for the next few years, have any significant effect upon China's internal political situation, its foreign policies, or its basic relationship to the USSR.[7] (paras 34, 35)

J. A multilateral relaxation of controls on trade with China would probably be approved by most of the governments of Europe and Asia, some because of conviction that it was a desirable move, others out of indifference to the issue or willingness to follow the lead of the powers principally concerned. While Chinese trade with non-Communist countries would probably increase after the relaxation of controls, and in some areas would be exploited for political purposes, it is almost certain that the amount of trade increase would fall far short of expectation in many countries. These countries might, therefore, in the course of time, become somewhat less vulnerable to trade offers made by China for political reasons. Nevertheless, China would probably exert every effort to import such quantities of specialized materials from Western sources as its economy permits. We believe that once these controls were relaxed only open aggression by Peiping would bring about a reimposition of controls. (paras 36, 37)

K. We believe it unlikely that trade relations between China and Japan could regain their prewar significance under any foreseeable circumstances, because of the postwar economic and political changes which have occurred in the Far East. With trade controls at the COCOM level, we believe that by 1957 the value of Chinese exports to Japan might be raised from the present figure of about $40 million a year to about $100 million. The value might even reach $150 million, but we believe this would require some diversion of Chinese exports from Bloc markets. We believe that Sino-Japanese trade during the next few years will not in itself cause Japan to alter significantly its present orientation to the West barring a serious depression in the Free World accompanied by a drastic curtailment of Japanese trade opportunities.[8] (para 39)

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[7] The Deputy Director for Intelligence, The Joint Staff, would add the following sentence (taken from para. 34): "However, increased trade with the West would reduce certain strains which probably exist in the Sino-Soviet relationship." [Footnote in the source text.]

Effects of a Reduction of CHINCOM Controls to the COCOM Level, but with the US Unilaterally Maintaining Various Alternative Levels of Controls

L. In this situation we believe that: (a) if the US maintained its present complete embargo on both imports and exports, the foreign exchange advantages which the Chinese might otherwise gain would be reduced by roughly one-half; (b) if the US maintained only a ban on imports from and remittances to China, the potential gains in foreign exchange to China would be reduced by about the same proportion; and (c) if the US maintained only a ban on exports to China, the Chinese could procure equivalent commodities elsewhere at only slightly increased costs, and could spend in other countries the dollars earned by exports to the US. (paras 40, 41, 42)

M. Although trading interests in CHINCOM and Far Eastern countries would welcome the continued absence of US competition in the Chinese market, their governments would be concerned at the divergence of their policies from those of the US. There would probably be apprehension that the failure of the US to participate in the general relaxation of controls would contribute to a continuation of tensions in the Far East. Moreover, difficulties and frictions would probably arise if the US attempted to prevent the re-export to China from third countries of goods imported from the US. (para 44)

Effects of Raising the Present Level of CHINCOM Controls

N. A further increase in controls on exports to China—without a corresponding increase in the level of COCOM controls—would probably have the effect of increasing the volume of transshipped goods, but it would probably not appreciably retard China's internal development. If an embargo on imports from China, similar to that now applied by the US, were applied by all CHINCOM countries, China would lose export markets now taking about one-quarter of total exports (including Bloc re-exports of Chinese products). Since

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[8] The Deputy Director for Intelligence, The Joint Staff, believes this sentence should be replaced with the following:

"Nevertheless, China's need for capital goods and its available or foreseeably available raw materials complement the present economic situation of Japan—productive capacity excess to its own needs, a diminished raw materials base, and an unfavorable balance of trade without substantial exports. It would be very much to Communist advantage if Japanese heavy industry were to supply much of the means for China's industrialization, particularly if at the same time Japan were to become partially dependent on China as a raw materials source and capital goods market. Current trade overtures indicate Communist awareness of this opportunity, and Japanese willingness to participate in such a pattern of trade." [Footnote in the source text.]

Bloc markets are not believed to be readily expansible, it is probable that China's import capabilities would be reduced proportionately. Such a reduction in China's imports would significantly retard China's internal development. (paras 45, 46)

O. The Director of Central Intelligence and the Special Assistant, Intelligence, Department of State, believe that in the unlikely event that *all* non-Bloc shipping and shipping services were denied to the uses of Chinese commerce, the Chinese economy would in the short term be adversely affected, and transportation costs increased. Non-Bloc ocean-going vessels in 1953 carried about three-fourths of China's seaborne foreign trade. Bloc flag shipping is inadequate to carry its own trade and no substantial building program is in progress. However, a substantial share of China's seaborne trade now carried in non-Bloc vessels would be carried by the Trans-Siberian railroad and by Bloc flag vessels diverted to the China trade, provided non-Bloc flag vessels were chartered to replace the shipping so diverted. A considerable part of the trade probably would be curtailed, notably China's exports of coal and iron ore which constitute 40 percent of seaborne export tonnage but less than 1 percent of the value of total exports. These adjustments would probably be made within a reasonable period. If denial affected only CHINCOM flag shipping and services, the Chinese could shift at least part of their seaborne commerce to non-CHINCOM flag vessels, thus mitigating still further the effects described above. (para 48)

P. The Director of Naval Intelligence; the Deputy Director for Intelligence, The Joint Staff; the Assistant Chief of Staff, G–2; and the Director of Intelligence, USAF, believe that in the unlikely event that *all* non-Bloc shipping and shipping services were denied to the uses of Chinese commerce, the effects upon the Chinese economy would be marked and adverse. It is probable that only a small portion of the tonnage now carried by non-Bloc ships could be carried through an increase or readjustment in the use of Bloc shipping. Denial of all non-Bloc shipping would result in considerable curtailment of China's foreign trade, because the rail transportation facilities within China and those between China and the European Bloc probably are not adequate to handle the additional tonnages involved. If denial affected only CHINCOM flag shipping and services, the Chinese could shift at least part of their seaborne commerce to non-CHINCOM vessels, thus mitigating the effects described above. We believe, however, that the extent of this mitigation would not be significant, since the denial of shipping services (re-insurance, bunkering, repair, etc.) by the largest maritime nations, in addition to other pressures which could be brought to bear, would make most non-CHINCOM countries extremely reluctant to commit their vessels to this trade, despite the probability of premium charter rates being offered by the Bloc. Few non-CHINCOM countries have substantial additional tonnage suitable for the China trade, and with few exceptions, the availability of any vessels would be limited by the extent to which they could be replaced on their regular runs by shipping chartered from CHINCOM countries. Moreover, of all non-CHINCOM countries, only Sweden has a significant amount of shipping which could be so used. (para 49)

Q. Without some new and considerable provocation by China or possibly the USSR, we believe that an appreciable increase in the level of controls on trade and shipping with China would almost certainly not be agreed to by non-Communist countries. (para 50)

Introductory Note on the Present System of Controls

Although single countries, particularly the US, had applied trade controls against the European Bloc earlier, international agreement for such controls came into effect with the establishment by the major Western allies of the Coordinating Committee (COCOM) in January 1950. The member states[9] agreed to three lists of commodities, based on the relative importance of the items listed as a contribution to the military potential of the Bloc. Goods on International List I (IL–I) are completely embargoed; goods on IL–II are subject to certain quantitative controls; and goods on IL–III are subject to surveillance and exchange of information between the COCOM countries.

In June 1950 China and North Korea were brought within the scope of the export controls exercised by the COCOM countries. In December 1950, after the Chinese aggression in Korea, the US applied a complete embargo to China. Following the UN embargo resolution of 18 May 1951,[10] the COCOM countries tightened their controls, and 30 other countries imposed restrictions on their exports to China. By the fall of 1952, when a China Committee (CHINCOM)[11] was formed by the COCOM members to control trade with China, all COCOM countries had agreed to embargo all three COCOM categories as well as certain supplementary items proposed by the UK (China Special List). Some countries have unilaterally embargoed additional strategic items, but among the major trading nations only the US has a complete embargo on all trade with China. In addition, certain transshipment controls are currently applied by the US and UK, and are being adopted by certain other COCOM countries. The US and Greece have an embargo on imports from China and North Korea; the US, Canada, and the Netherlands have adopted controls on financial transactions, and certain other COCOM countries including the UK are adopting such controls. Practically all leading non-Communist maritime countries prohibit their merchant ships from carrying strategic goods in the China trade, and the US, UK, France, and Japan have adopted bunkering controls. However, these measures have been too limited in scope to prevent the Bloc from obtaining the use of a substantial volume of Western shipping for China's overseas and coastal trade. All CHINCOM controls have been subject to frequent circumvention and some violation.

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[9] Fifteen countries currently participate in COCOM: Belgium, Canada, Denmark, France, Greece, Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Turkey, the UK, and the US. [Footnote in the source text.]

[10] On May 18, 1951, the U.N. General Assembly adopted Resolution 500(V), recommending an embargo of shipments to North Korea and Communist China of arms, ammunition, implements of war, atomic energy materials, petroleum, and materials of strategic value.

[11] Same 15 countries participating in COCOM. [Footnote in the source text.]

As the result of continued pressure by most non-Communist countries, major adjustments, chiefly relaxations, were made in August 1954 in the COCOM system of controls over trade with the USSR and its European Satellites (but not in the CHINCOM system of controls over trade with China). These adjustments were generally in keeping with the objectives, set by the Paris Consultative Group,[12] of establishing the control lists on a "long haul" basis and giving appropriate recognition to particular economic and political pressures within individual countries. The relaxation in controls against the European Bloc took the form of net reductions in the number of items or categories in the embargo, quota, and surveillance control lists by 37 percent, 77 percent, and 40 percent respectively, and, even more important, a redefinition and downgrading of many items from the embargo list to the quota and surveillance lists. These adjustments have widened the differential between controls on trade with the European Bloc and controls on trade with China, and therefore increased the opportunities for China to get through other Bloc countries items it could not get direct. However, in relaxing controls against the Bloc, the COCOM countries agreed to consider measures that would prevent or reduce such indirect trade. A Transit Authorization Certificate (TAC) system has been agreed upon whereby unrestricted use of the free ports in COCOM countries for evasion by transshipment would be precluded for items on IL–I.

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[12] The Consultative Group (CG) is composed of representatives of countries participating in the COCOM trade control system. Its permanent working committee is the Coordinating Committee (COCOM). The main functions of CG are to review the recommendations of COCOM, to consider general policy matters arising in COCOM, and to set the general frame of reference for future COCOM activities. [Footnote in the source text.]

[Here follow a detailed discussion of these conclusions in numbered paragraphs 1–50 and an appendix on Japanese trade with Communist China.]

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44. Report to the Council on Foreign Economic Policy [1]

Washington, January 20, 1955.

REVIEW OF ECONOMIC DEFENSE POLICY AND PROGRAM

Summary

The U.S. economic defense program requires answers to the following basic questions:

1. Should export controls be designed to control commodities directly related to Communist-bloc war production, or to control, in addition, commodities related to the basic industrial development of the bloc?
2. Should the U.S. differentiate in its economic defense objectives and programs between Communist China and the European Soviet bloc?
3. Should the U.S. encourage non-strategic trade with the Soviet bloc?
4. In negotiations with friendly governments to achieve common actions, to what extent should the U.S. use the economic leverage and bargaining power potentially available in various U.S. programs and actions?
5. In the face of growing Communist economic power, should the U.S.—while not overlooking what trade controls have done and can do—embark on a broad, long-range, positive program to bring about greater relative economic strength in the free world, particularly in crucial areas of the Far East?

Attached are two documents. [2] The first is a brief paper which states the assignment, gives the current status of the trade-control program, and poses the above basic questions. The second is a background paper which outlines some of the principal aspects of trade controls toward the European Soviet bloc and Communist China.

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[1] Source: Department of State, Central Files, 460.509/1–2055. Secret. Drafted by Stassen and Anderson and presented to the Council on Foreign Economic Policy at its fourth meeting on January 21.

[2] Neither printed.

45. Memorandum From the Assistant Secretary of State for Economic Affairs (Waugh) to the Under Secretary of State (Hoover)[1]

Washington, January 21, 1955.

SUBJECT

The Dodge Council's[2] Study of East-West Trade Controls

In the recent Far East policy paper, 5429/5, the NSC directed that East-West trade controls against Communist China be maintained at their present levels, but at the same time instructed the new Council on Foreign Economic Policy to review urgently all aspects of our economic defense policy relating to trade with the entire Communist bloc. The Economic Council has already received some background materials for this broad assignment, including a new National Intelligence Estimate (NIE 100–55),[3] and as a next step in the study Mr. Stassen and Mr. Samuel Anderson undertook to submit to the Council meeting now scheduled for Friday, January 21, a paper posing major policy issues.

The latest draft of this Commerce–FOA paper is attached herewith (Tab B)[4] and an earlier draft was reviewed hurriedly with the various interested bureaus. It poses basic questions about our trade control policies for the European and Far Eastern parts of the Soviet bloc. It offers a broad critique of the effectiveness of present policies. It reviews the history of their genesis and elaboration. Although opinions would differ within the Department upon the merits of this paper, or the purposes it can properly serve, all are agreed that it is more or less inadequate, particularly with respect to the focus and setting given to the specific problems it attempts to formulate. It is the general view also in this Department that an adequate approach to this policy review will require time for assimilation by the Council of such pertinent materials as the Intelligence Estimates and for preparation and study of more thorough and coordinated submissions directed at the problem areas which the Council may wish to explore in detail.

In the course of this policy review, the Council members will be required ultimately to commit themselves on at least three fundamental questions:

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[1] Source: Department of State, Central Files, 460.509/1–2155. Secret. Drafted by Goodkind and concurred in by Armstrong, Stibravy, Barbour, Sebald, Silver, Ludlow, and Doherty.

[2] The Council on Foreign Economic Policy was chaired by Joseph M. Dodge.

[3] Document 43.

[4] See the summary of this paper, *supra*.

(a) Should the U.S. abide by its present East-West trade policies for the European and Far Eastern parts of the Soviet bloc and retreat from those policies only on an ad hoc basis if and as necessary when the opposition and resentment of other countries present serious dangers to our friendly association and collective arrangements with them?

(b) Should the U.S. attempt through resort to available inducements and pressures to persuade currently unwilling countries to participate with us in controls of wider scope and greater severity for both the European and the Far Eastern parts of the Soviet bloc?

(c) Should the U.S. now decide to retreat from some aspects of its present East-West trade policies, thus making it possible to offer concessions to other countries, including those in the Soviet bloc, in order to gain advantage both in the field of increased effectiveness of remaining controls and in other fields?

Recommendation: That you urge the Economic Council to take ample time to examine pertinent materials other than the FOA–Commerce paper bearing on economic defense policy, and to call for further submissions dealing more thoroughly with whatever problem areas within this NSC assignment the Council may wish to explore in detail. Adequate time should be allowed for preparation of such additional submissions, which should be presented on a coordinated basis, and which should spell out alternative courses of action, with recommendations.

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46. Editorial Note

At the fifth meeting of the Council on Foreign Economic Policy on January 25, the Council reviewed the joint FOA–Commerce paper that had been distributed at its previous meeting on January 21. According to the minutes of the meeting drafted by Major General George L. Eberle, USA (retired), Executive Director of the CFEP, the discussion was as follows:

"It was agreed that the recent situation with respect to the China-Formosa problem and possible subsequent developments could have an important bearing on any policy decision.

"After an expression and discussion of views by State, Commerce, Defense, and FOA, it was agreed that the subject would be referred to appropriate representatives of these Departments and the Treasury for the submission of a document to the Council redefining the component issues, defining the policy conflicts related to them, and recommending further appropriate studies of the fundamental issues from which the Council can give policy guidance in further assignments." (Eisenhower Library, CFEP Records)

According to a memorandum from Dodge to the Council, January 26, it was also decided at the meeting that economic defense policy would be reviewed in the future by a Steering Committee to be chaired by Samuel Waugh and to include the following officials: W. Randolph Burgess, Under Secretary of the Treasury; Samuel Anderson; H. Struve Hensel, Assistant Secretary of Defense for International Security Affairs; and Harold Stassen. (*Ibid.*)

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47. Memorandum From the Chairman of the Council on Foreign Economic Policy (Dodge) to the Deputy Director for Intelligence, Central Intelligence Agency (Amory) [1]

Washington, February 7, 1955.

Note—This memorandum was written before the Malenkov resignation and other changes in the Soviet Government Administration, which served to emphasize the situation indicated. [2]

J.M.D.

Recently there has been considerable press and other comment about the change in economic policy by the Soviet Union. This was highlighted by the resignation of Mr. Mikoyan as Minister of Trade, [3] and the subsequent announcements of Mr. Khrushchev.

It seems to be clearly indicated that the program of Mikoyan which promised a rapidly rising standard of living, even at the expense of heavy industrial expansion, has been reversed. This is supported by the 1955 budget of the Soviet [Union] which shows sharp increases in appropriations for the armed forces and heavy industry and cutbacks in allocations for consumer goods and agriculture. The evident conclusion is a reallocation of their internal resources. Apparently capital resources proved inadequate to meet the ambitious plans for consumer goods expansion without seriously interfering with the expansion of heavy industry and its inevitable relation to war production. As a result the progress in living standards is set back.

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[1] Source: Eisenhower Library, CFEP Records. Secret.

[2] On February 8, Georgi M. Malenkov resigned his position as Chairman of the Soviet Council of Ministers. That same day, Nikita S. Khrushchev, First Secretary of the Communist Party of the Soviet Union, proposed that Nikolai Bulganin succeed Malenkov. The Supreme Soviet approved Khrushchev's recommendation and several other cabinet changes later that day.

[3] On January 24, Anastas I. Mikoyan resigned as Minister of Trade.

This situation suggests implications with respect to East-West Trade Policy. It seems to clearly indicate that the acquisition by means of trade of goods and materials, whether acquired directly or through satellite nations, that contribute to the maintenance or increase of their domestic living standards becomes a more obvious replacement of the domestic resources diverted from consumption purposes to war purposes.

The same factor is apparent with respect to Communist China and the diversion of its internal resources to industrialization related to the growth of its military power. In the case of China, we see reports of a nation exporting certain categories of food supplies for industrial equipment when there are inadequacies in food availability within China. ChinCom is willing to deprive its people of the essentials of life and living for other purposes.

Doesn't this combination of circumstances suggest that any contribution through trade to improved living standards, no matter what its nature, becomes a direct contribution to military power and the industrialization that supports it?

From the information that you have available, would you care to make any comment about this in relation to CFEP 501 (East West Trade)?

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48. Memorandum From the Deputy Director for Intelligence, Central Intelligence Agency (Amory), to the Chairman of the Council on Foreign Economic Policy (Dodge) [1]

Washington, February 10, 1955.

REFERENCE

Your memorandum of 7 February 1955

1. Events of the last few days have added whatever confirmation is needed to your view that there has been a decisive change in the basic economic policy of the Soviet Union. Though Malenkov and Mikoyan never put butter ahead of guns, it is clear that they advocated a reasonable amount of butter along with the guns. The

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[1] Source: Eisenhower Library, CFEP Records. Secret.

new administration is quite clearly telling its people that heavy, war-supporting industry takes clear precedence and that the people must in effect as patriots be willing to tighten their belts.

2. I agree with you that this has great significance for those who are charged with developing our East-West trade policies. I have reason to hope that it may make our COCOM friends more receptive to the U.S. position. On the other hand increasing Russian intransigence and vociferous support for China on the Formosa issue render the differential in control levels between China and the rest of the Bloc less and less rational. If in return for some modification in CHINCOM levels, we could now get a substantial tightening of COCOM controls, I think it would be an excellent bargain from our point of view.

3. I emphatically agree with your semi-final paragraph as a general proposition: that is to say, a highly subtle distinction between various industrial products as to whether or not they contribute to military potential is futile. The Russian industrial machine is so large that it can make any substitution needed. Therefore, anything, e.g., a textile spinning frame or shoe machine reequipment, which contributes to their industrial potential contributes to their military potential and any finished product frees their basic machinery to make end-items enhancing their military potential.

4. From the point of view of appreciating the magnitude of the basic East-West trade problem before your Committee, I think you may be interested in our recent finding that the Soviets last year produced 90,000 machine tools as compared to 70,000 produced in the U.S. Thus to me it is hard to see how any control program can seriously impair Soviet might.

Robert Amory, Jr.

49. Memorandum From the Assistant Secretary of State for Economic Affairs (Waugh) to the Under Secretary of State (Hoover)[1]

Washington, February 21, 1955.

SUBJECT

Exchange of Memoranda Between Mr. Dodge, CFEP, and Mr. Amory, CIA, on Implications of Changes in Soviet Government with Respect to U.S. East-West Trade Policy

Problem

The above correspondence is included as a note on the agenda for the ninth meeting of the Council on Foreign Economic Policy, February 23, 1955. The comments listed under "Recommendation" may be made if discussion is held on this correspondence.

Discussion

1. The burden of the subject memoranda is that the hardened domestic and foreign attitude of the present Kremlin leaders renders obsolete and futile the somewhat subtle distinction between "strategic" and "non-strategic" goods, as far as the free world denial program is concerned. Also, the differential in the levels of international security trade controls as between the European Soviet bloc and Communist China is now even more illogical than it has been. Policywise, as far as the U.S. is concerned, the implication seems to be that we should seek a uniform level of controls against both parts of the Soviet bloc at a point somewhere between the levels now in effect for the European Soviet bloc on the one hand and Communist China on the other.

2. Within a small circle of the Economic Defense Advisory Committee (EDAC) organization, thought is being given to a new approach to the problem of formulating an improved control list for the Communist bloc. The principle underlying this new approach, if it can be worked out over the next several months, would be control of those items, or categories of items, the denial of which would impose the greatest calculated cost to the Soviet bloc measured in economic resources. The proposal might not work a great change in the ultimate appearance of the actual control lists, but would support them with a sounder rationale than the existing "strategic" criteria which the COCOM countries accept but which prove to be subject to differing interpretations.

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[1] Source: Department of State, Central Files, 460.509/2–2155. Secret. Drafted by John E. Mellor of ECD; concurred in by EE and RA.

3. If and when some such proposal has been formulated and agreed upon within the U.S. Government, the remaining question would be whether the new approach could or should be negotiated in COCOM. Without prejudice to this question, we shall certainly have to keep in mind the fact that, even at the height of the Korean conflict, our European allies were not willing to accept measures aimed at the general economic well-being of the Soviet Union and its European satellites. They were unwilling, moreover, to levy a total embargo against Communist China, the declared aggressor, even though a number of them had troops on the Korean battlefield.

4. A case can be made that the Soviet bloc, including China, benefits more from East-West trade than does the West. If this is accepted, and the reasoning in the subject memoranda is carried to a logical conclusion, then the answer from a narrow economic security standpoint is simple and clear-cut: total embargo. From the broader standpoint of our national interests, and having in mind the health and vitality of our political and military alliances, the game would not be worth the candle, particularly since the "game" is not believed capable of weakening the bloc in any vital way.

Recommendation

The following comments of OIR may usefully be made in discussing the subject correspondence. E concurs in all of them.[2]

1. At no time during the Malenkov regime was it ever implied that consumers' goods or agriculture had higher priority than heavy industry, nor was performance in light industries ever of a nature or on a scale to constitute a shift from the traditional concentration on heavy industry. The goals for heavy industry in this period were not scaled down, and investments in this sector continued high. Similarly, recently announced economic objectives indicate no sharp increase in effort in the heavy industry field—which was already being fostered to an extreme degree—at the expense of consumers' goods—which as a matter of fact, offered little room for a squeezing operation.

2. As both Mr. Dodge and Mr. Amory suggest, it is extremely difficult, if not impossible, to assess the contribution of individual commodities to the Soviet bloc war or civilian economy. Our lists of so-called strategic goods, in the absence of satisfactory intelligence on the bloc economy, frequently have had to be based on analogy with Western economies. It is likely that the reasoning in many instances was inapplicable.

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[2] These comments were contained in a memorandum from Henry Brodie, Adviser on Economic Research, DFI, to Mellor, February 21. The memorandum, not printed, was attached to the source text.

3. Yet, we know that trade benefits the bloc probably more than it benefits the West. Thus, we are forced to operate with the theory that outside of goods embodying advanced technology which we believe to be not available to the bloc, the importance of trade to the bloc is more a function of the quantity than the kind of goods exchanged.

4. We also agree with Mr. Amory's statement that "it is hard to see how any control program can seriously impair Soviet might." We accept this conclusion because of two factors: First, the fact that the Soviet bloc itself, following a policy of self-sufficiency, has severely limited the total volume of East-West trade, thereby reducing the potential scope and impact of any Western control program; second, over the long run, bloc planners can adjust their economy so that the slight impact of a Western denial program can be restricted to either the civilian or the military economies or shared between them.

5. We disagree with Mr. Amory's statement that the differential in control levels between Red China and the European bloc has become less rational because of "Russian intransigence and vociferous support for China on the Formosa issue." Export controls on trade to China have been rendered partially ineffective on those goods which the European bloc can (and does) transship to Communist China. We are less optimistic than Mr. Amory that it would be possible to get a "substantial tightening of COCOM controls" in exchange for "some modification" in CHINCOM controls, though this would, we agree, be an excellent bargain. On this subject it is important to note that it is only in the case of Communist China that unilateral U.S. embargo policy can have an important effect. By denying the U.S. market to China, the U.S. by itself has seriously impaired Communist China's ability to earn foreign exchange and, therefore, to import goods from any country of the world including its Soviet partners.

50. Memorandum From the Deputy Assistant Secretary of Defense for International Security Affairs (Davis) to the Chairman of the Council on Foreign Economic Policy (Dodge) [1]

Washington, February 23, 1955.

DEAR MR. DODGE: Your memorandum of February 7, 1955, to the CIA Deputy Director of Intelligence, and his reply of February 10, 1955, have been drawn to my attention in the absence of Mr. Hensel. I feel compelled to advise you of my reactions to this memorandum because serious consideration of its conclusions, in my opinion, would be prejudicial to the proper solution of the East-West trade policy problem which was assigned to the CFEP.

First, however, I would like to comment on the central question raised by your memorandum. The relative ease with which the reallocation of resources may be directed by the monolithic Communist bloc constitutes a major strength of that system. Subject to certain limitations, such as those imposed by transport and technical skill, the Communist rulers can and do shift their available resources to meet the most urgent need of the moment.

Since there is a high degree of fungibility in most production resources, a high proportion of the available economic potential can be reallocated from peaceful to military use, especially in view of the probability that production facilities are largely created with the idea that they would be available for war use. It therefore seems clear that the entire Communist bloc economy should logically be considered in any Free World policy aimed at limiting the expansion of military power in the Communist bloc. This principle has been implicit in all actions and recommendations of the Defense Department in this field.

As to the memorandum in reply to yours, I doubt the validity of the conclusion in the final paragraph. This conclusion is inconsistent with the substance of the preceding paragraphs and it cannot be supported by intelligence and technical facts as evaluated by Defense Department experts.

Any implication that the economic might of the Communist bloc cannot be impaired by any Free World action, merely because the Soviets produced quantitatively more machine tools than the U.S. last year, and that, therefore, all efforts to limit the availability to the Soviet Bloc of Free World economic resources are futile, has no basis in logic.

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[1] Source: Eisenhower Library, CFEP Records. Secret.

It seems to me that there are two conflicting views on this whole general subject. One, apparently, is that the prospect of eventual Soviet industrial expansion is such that efforts to delay this expansion are not worthwhile. The other, supported by the Department of Defense, is that any delay in Soviet industrial expansion is important and valuable to U.S. security. In fact, we feel that the situation is such as to justify intensified, rather than relaxed, efforts along these lines.

Sincerely yours,

A.C. Davis
Vice Admiral, U.S. Navy

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51. Telegram From the Department of State to the Embassy in the United Kingdom[1]

Washington, February 23, 1955—5:31 p.m.

4327. Excon. Embassy should transmit following note to FonOff as reply their note delivered January 31:[2]

US regrets communications between Dulles–Eden, Stassen–Thorneycroft have not resulted in resolution of outstanding differences. Agree with UK further bilateral discussions on issues other than rolling mills and copper trade data not repeat not profitable and remaining problems should now be resolved in COCOM. Our specific views are:

(a) Generators. Preliminary decisions on this problem have already been reached multilaterally in Paris. Assuming the four-year quota of $40,000,000 is based upon definition of generator sets which includes (1) prime movers shipped as parts of generator sets and (2) motor generator sets, US willing accept this compromise.

(b) Copper. US will press for upgrading copper wire (in addition to items already jointly agreed for embargo) since frustration embargo item 1650 through this loophole becomes daily more evident and alarming.

(c) Shipping. Other PC's presumably still desire plan for shipping controls as formulated September CG meeting. US continues support that proposal in form referred to governments. Any modifications discussed bilaterally since September presumably cancelled . . . . If other countries desire US of course willing participate COCOM attempt formulate alternative proposal which will achieve workable controls scheme for this highly important field. If COCOM unable formulate alternative plan US will strongly urge maintenance status quo. Hopes UK will not offer new proposal outlined in note since in US view this would weaken further already unsatisfactory control level.

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[1] Source: Department of State, Central Files, 460.509/2–2355. Secret. Drafted by Buckle and Goodkind. Repeated to Paris.

[2] The British note of January 31 has not been found in Department of State files; it was summarized, however, in telegram 3951 to London, February 1. (*Ibid.*, 460.509/1–2755)

(d) Rolling Mills. Will communicate views in few days as to how Defense talks might be conducted. Agree with UK neither side bound by conclusions reached during talks but assume both sides will refrain from raising issue in COCOM until talks have been completed and opportunity taken assess respective positions in light of any agreed findings.[3]

Hoover

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[3] In telegram 3751 from London, February 25, the Embassy reported that it delivered the proposed note to the British Foreign Office on February 24, except for the section on generators. (*Ibid.*, 460.419/2–2555) The text of the note was transmitted to the Department in despatch 2467 from London, February 25. (*Ibid.*)

The British reply of February 24 is not printed. (*Ibid.*, 460.509/3–255)

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52. Letter From the Deputy Under Secretary of State (Murphy) to the Secretary of Defense (Wilson)[1]

Washington, February 28, 1955.

DEAR MR. SECRETARY: In the Secretary's absence,[2] I am replying for him to your letter of February 16, 1955, concerning the negotiation of certain East-West trade control problems, particularly the current controversy with the United Kingdom over an appropriate pattern of shipping controls.[3]

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[1] Source: Department of State, Central Files, 460.509/2–1655. Secret. Drafted by Goodkind on February 24. A copy was sent to Stassen.

[2] Dulles left Washington on February 18 to attend the first meeting of the Council of the Southeast Asian Treaty Organization in Bangkok, followed immediately by a general tour of several Asian nations.

[3] This letter reads in part as follows: "I believe, therefore, that the United Kingdom refusal should be referred to the Consultative Group, and I think a strong stand there by the United States would elicit support from the other participating countries. Acquiescence by the United States to the United Kingdom desire for further discussion of this matter in COCOM would be interpreted by the other countries as another instance of U.S.–U.K. collaboration to circumvent the machinery established for reaching agreement." (Department of State, Central Files, 460.509/2–1655)

I am informed that the position agreed between the Secretary and Harold Stassen, against assembling a Consultative Group meeting at this time to consider the shipping problem, has been explained in a letter to you from Mr. Stassen himself.[4] I understand also that the same problem was discussed with you in somewhat greater detail by Mr. Stassen's Deputy, Admiral DeLany, and by Mr. Goodkind, of this Department, in a meeting in your office on Wednesday morning, February 23.[5]

It would appear that our two Departments are now in general agreement on how the immediate problem of the shipping controls should be handled, and appropriate cables of instruction have been transmitted to the U.S. representatives in London and Paris.[6] Specifically, as amplified in the cables and as outlined in the meeting in your office, the U.S. will make a strenuous effort in the Coordinating Committee to achieve acceptance of the substance of the Consultative Group plan for shipping controls; failing this, we shall attempt to hold firm the maintenance of the existing controls, with such minor changes as we are able or willing to negotiate; and we shall oppose the change in the existing controls which the British indicated in their recent Note to us that they intended to propose in COCOM. It was the Secretary's and Mr. Stassen's feeling that our following this course of action in COCOM would exhibit our firmness of purpose in such way as to obviate any erroneous impression on the part of other countries that we had privately agreed with the UK to yield our previous position, without at the same time opening up other politically sensitive matters in an untimely fashion.

As I am sure you recognize, the U.S. tactics on East-West trade matters must be considered in conjunction with other foreign policy problems. If it is possible for us to pursue our security trade control concerns either bilaterally or multilaterally in a manner which seems to offer opportunity for constructive progress while yet avoiding undue increase in the political strains upon the governments of our principal allies, it lies in our net interests to follow such tactics.

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[4] Dulles and Stassen agreed to this position in a telephone conversation of February 10. (Memorandum of telephone conversation; Eisenhower Library, Dulles Papers, General Telephone Conversations) Stassen's letter to Wilson, February 20, is in Department of State, Central Files, 460.509/2–2455.

[5] No record of this meeting has been found in Department of State files. However, in a letter to Kalijarvi, dated February 28, A.C. Davis summarized the discussion. (*Ibid.*, 460.509/2–2855)

[6] Topol 1228 to Paris, February 23, repeated to London, and telegram 4327 to London, February 23, repeated to Paris, neither printed. (*Ibid.*, 460.509/2–455)

We appreciate having your views on these matters as expressed both in your letter and during the conference in your office.

Sincerely yours,

Robert Murphy[7]

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[7] Printed from a copy that bears this typed signature.

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53. Memorandum From the Director of the Office of Defense Mobilization (Flemming) to the Under Secretary of State (Hoover)[1]

Washington, March 8, 1955.

I am concerned over the current copper situation. Some of the disturbing elements in the situation are: the existing shortage in U.S. supply; the continuing unsatisfactory status of the national stockpile; the present strike at the Northern Rhodesian mines; and the increasing shipments to the Soviet Bloc. It is the last element that prompts this memorandum.

Copper, in appreciable quantities, is reaching Soviet destinations in both an illegal and a legal manner.

In regard to the illegal traffic, it is my understanding that we, in concert with the other governments of the COCOM countries, are taking all measures to minimize such shipments, and with some success. I trust that continued pressure will lead to further curtailment.

In regard to the legal traffic, the volume exceeds by far the quantities anticipated when certain categories of copper were removed from quantitative control during the revision of the COCOM control lists last August. In copper wire alone, 35,000 tons have moved behind the Iron Curtain since August and an additional 24,000 tons are being prepared by the British for shipment during the balance of the calendar year. It is clear that the relaxation of controls in this instance has resulted in a frustration of the agreed COCOM policy for effective control of strategic materials to the Bloc. While copper in refined form remains an embargo item, copper in form of wire is reaching the Soviets in sufficient tonnage to largely offset the benefits to be expected from an embargo undertaking. Thus, on the broad concept of the COCOM arrangement, it is manifest that copper wire should be restored to the embargo list.

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[1] Source: Department of State, Central Files, 460.509/3–855. Secret.

On other grounds there is a U.S. urgency for action to secure a general embargo on copper wire and related copper products. First, there is the action of last Friday by the Department of Commerce to further curtail U.S. exports of copper to friendly nations. Second, also on Friday last, I authorized the sale to industry of copper in the Defense Production Act inventory and material in transit thereto, and I further authorized diversion from DPA contracts through March 31, 1955.[2]

From a public relations point of view and otherwise, the position of the Executive Branch of Government would be untenable in view of these recent actions unless positive and prompt action were taken by the Government to attempt in every way possible to stop the flow of copper to the Soviet Bloc. In meetings on this subject in the Economic Defense Advisory Committee and its subcommittees, the ODM has constantly advocated an absolutely firm U.S. position in negotiating for a return to the earlier embargo status for copper wire and related copper products.

For the reasons enumerated above and particularly because of the recent release of DPA copper, I urge you to exercise a maximum negotiating effort to restore the earlier international embargo on copper, whether in negotiations at the COCOM conference table or in discussions with the British.

I enclose a copy of a memorandum for you as Chairman, Operations Coordinating Board, which explains our interest in developing immediate further information on this area of economic warfare which is being practiced on us by the Soviet Bloc.[3]

Arthur S. Flemming

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[2] For text of the Defense Production Act of 1950, see 64 Stat. 798.

[3] Not attached to the source text. The memorandum was, however, attached to Hoover's reply of March 22 to Flemming's memorandum. In his letter, Hoover notes the following: "We are at the moment exploring with the British available information on the illegal movement of copper metal to the Soviet Bloc and hope that as a result of this exchange and current negotiations in the Coordinating Committee the controls over copper wire will be substantially tightened in the near future." (Department of State, Central Files, 460.509/3–855)

Polto 1833 from Paris, March 19, reported that a U.S. Delegation held bilateral talks with all COCOM delegations principally concerned with the copper problem "in order make clear total U.S. concern copper and intentions U.S. actively press for embargo copper wire and cable." (*Ibid.*, 460.509/3–1955)

54. Report by the Steering Committee of the Council on Foreign Economic Policy[1]

CFEP 501/5 *Washington, March 24, 1955.*

INTERIM REPORT ON REVIEW OF ECONOMIC DEFENSE POLICY

Summary

The attached Interim Report recommends that the CFEP (1) endorse, in principle, the appended instructions prepared by the Steering Committee for a thorough review of economic defense policy; (2) re-affirm certain existing NSC directives as the appropriate policy applicable in the interim; and (3) transmit this Interim Report to the NSC for information:

These recommendations are based on the following findings and conclusions reached by the Steering Committee:

1. The various agency papers bearing on possible changes in economic defense policy merit further study in the framework of a broader and more meticulous review;
2. There should be no substantial change in our economic defense policies and programs as of the immediate moment;
3. The U.S. can afford now to take the time necessary to accomplish a thorough job of review; and
4. For the forthcoming interim period, the existing economic defense directives should be reaffirmed.

INTERIM REPORT ON REVIEW OF ECONOMIC DEFENSE POLICY

Recommendations

1. That the Council endorse, in principle, the attached instruction (Tab B)[2] to a Drafting Group of the Task Force, requiring a thorough review of the economic defense policy embodied in NSC 152/3[3] and paragraph 7(c) of NSC 5429/5, and requesting consideration of appropriate courses of action in relation to a series of practical alternative assumptions concerning the degree of East-West tensions;

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[1] Source: Eisenhower Library, CFEP Records. Secret. Forwarded to the CFEP on March 24 under cover of a memorandum from Cullen, in which he noted that the report was scheduled for discussion at the CFEP meeting of March 29.

[2] Not printed.

[3] For text of NSC 152/3, "Statement of Policy by the National Security Council on Economic Defense," approved by the President on June 18, 1953, see *Foreign Relations*, 1952–1954, vol. I, Part 2, p. 1207.

2. That the Council re-affirm the general objectives and courses of action set forth in NSC 152/3 and paragraph 7(c) of NSC 5429/5 as constituting appropriate policy pending completion of such review, or pending notification to the National Security Council by the Secretary of State, pursuant to sub-paragraph 7(c)(3) of NSC 5429/5, that further effort to maintain the current level of multilateral controls would be seriously divisive among our allies;

3. That this Interim Report be transmitted to the National Security Council for its information as an interim response to the assignment made to this Council in sub-paragraph 7(c)(4) of NSC 5429/5.

Discussion

The Steering Committee has made a preliminary examination, from both the short and long-range points of view, of the existing economic defense policy and program and of certain recommendations for change submitted separately by several agencies. The Steering Committee finds that the various agency papers merit further study and consideration in the framework of a broader and more meticulous review. Such review will permit a more detailed development of the concepts involved, as well as a careful exploration of the circumstances and time factors suited to particular changes in current economic defense policies.

The Steering Committee has reached the following additional findings and conclusions:

I. There should be no substantial change in our economic defense policies and programs as of the immediate moment.

A. Concerning Communist China: Political factors of fundamental importance dictate that under present circumstances we should maintain free world controls on economic relations with Communist China at current levels (a summary of the reasons underlying this basic conclusion is appended hereto as Tab A). At the same time, unless there were a material worsening of present tensions, it would be unrealistic to contemplate that we could persuade our allies to expand or heighten the level of multilateral controls toward Communist China, since these countries have been chafing already over the extent to which these controls now exceed those applied to the European Soviet bloc. Accordingly, although from time to time the greatest sense of urgency has seemed to pertain to the area of the Communist China controls, and in fact this problem was the one which largely occasioned the present policy review, it appears that the United States should take no overt action at this time toward material change in these controls.

B. Concerning Eastern Europe: The multilateral controls applicable to the European Soviet bloc have only recently been substantially revised. The general revision of the lists became effective as of mid-August, but a few difficult items still remain unresolved. In addition, new enforcement measures have been established, effective a little over a month ago. Whereas these revised controls apparently now satisfy fairly well the basic objectives of our Western European allies, they do present many serious deficiencies and are, in any case, short of being what, in the U.S. mind, they could and should be. These defects in the controls structure are emphasized when an attempt is made to look at the Communist bloc as a whole. A number of factors, however, make it plain that the deficiencies in the control structure will take a substantial period of time to remedy, even in part.

In the first place, as already noted, our flexibility to adjust the control structure to a "bloc-as-a-whole" approach is limited at the present by the requirements of our general position to maintain the controls toward Communist China. This sort of adjustment must therefore await either an appropriate time for revision in the Communist China controls or the development of new concepts and a fundamentally new approach to controls toward the entire Communist bloc, on the basis of which the U.S. could reasonably expect to negotiate agreement to move toward uniformity by substantial strengthening of controls applied to Eastern Europe.

Secondly, at this stage of their preliminary analysis, the agencies within the U.S. Government harbor many and diverse views as to what is wrong with the security trade controls and how these faults should be corrected. It will take no small effort, individually and collectively, to define these views in specific detail, to compare and evaluate them, and to develop them into a homogeneous program commanding government-wide adherence.

In the third place, the need is recognized for meshing the economic defense program more intimately with other broad programs in which the United States is engaged. More time and thought should be devoted to how other efforts and actions of the United States can assist in achieving our economic defense goals, and vice versa.

Finally, and most important of all, this review must accomplish—or abandon as unattainable—a ground-up development of a new approach to, or rationale for, security trade control restrictions to the Communist bloc as a whole. While the criteria for selection of "strategic" items have been useful in the past, particularly for negotiating multilateral agreements, at this time, in the face of divergent interpretations and a growing body of precedents grounded in political compromise, the criteria have become at once confusing and less useful. We need new concepts as a guide for our own determinations. Even more, as a means to revitalize the Consultative Group and the Coordinating Committee we need a new approach toward security trade controls and a larger measure of fundamental agreement between cooperating countries as to the objectives of the program. The old criteria obviously cannot be expected to carry a major effort to modify the structure just enacted upon them. And the current divergencies in attitude and basic concepts on the part of the various Participating Countries would inevitably frustrate endeavors to achieve agreement on any substantial changes in the control program.

II. We can afford now to take the time necessary to accomplish a thorough job of review.

A. Concerning Eastern Europe, we are now relatively free of outside pressure for change in the controls. As already noted, the revisions just accomplished have relieved most of the international frictions that had been developing over control policy, and the Paris committees will be preoccupied for several months more with disposition of the residual problems of last year's list review. The new enforcement measures are just taking hold, and are still being developed, and a period of experience will be needed before stock can be taken of their adequacy.

B. Concerning Communist China, the pressure for change on the part of our allies likewise has lessened, though presumably this respite is more temporary. Whatever their present preference or ultimate choice, our China Committee partners seem not disposed to contend with the known strong U.S. views on maintenance of China controls so long as the current circumstances of tension endure. This appears to be true even of Japan, which, for both economic and political reasons, has been recently the industrial country most likely to force a joining of issues on the relaxation of Communist China trade controls. While the new government in Japan[4] will probably feel more disposed than its predecessor to risk United States displeasure by precipitating a controversy in the Paris Group over maintenance of the current control levels, it is noteworthy that thus far Japan has exhibited marked restraint even regarding resort to the procedures open to her for exceptions from the agreed embargo.

While we may not be able much longer to forestall discussion of the general question, we should probably be able, with appropriate bilateral preparations, to obtain agreement for temporary, but indefinite, continuance of the present level of controls. Even if we should feel it necessary to agree to some action other than mere extension of current controls, we still would have some months of time for review and decision, since at the most we should have only to agree to multilateral study toward subsequent revision of the controls. Thus, on even the most pessimistic of estimates, we should have at least until the coming summer before we should have to apply the results of our own re-thinking in order to take the lead in shaping a new and revitalized multilateral program.

III. For the forthcoming interim period, the existing economic defense directives should be reaffirmed.

A. The general objectives and courses of action for the economic defense program which are embodied in NSC 152/3 were carefully formulated under the present Administration and approved by the President in August 1953. Paragraph 7(c) of NSC 5429/5, dealing with the maintenance of Communist China trade controls, was constructed to fit the immediate situation, and was approved scarcely more than two months ago. Neither of these directives should be discarded until it can be succeeded without hiatus by a carefully devised replacement. Yet, the NSC assignment for policy review, which grew out of discussions concerning possible adjustments in the China controls, has, albeit unintentionally, cast a cloud upon the status of the existing policy directives. A team can function as a team only when the players all respond to the same signals. In the interests of forceful and effective operations at the working level, it is necessary that the policymaking bodies should clearly emphasize at this time that the existing policy directives remain in force and effect until those same bodies see fit to alter them. At the same time it should be noted that to the extent that the existing policy directives called when formulated for significant changes in the level or pattern of controls, such modifying effort has now been expended, and it should be understood that in applying the existing policy directives during the interim period prior to adoption of revised directives, no further substantial changes of this nature will be attempted.

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[4] On December 9, 1954, Ichiro Hatoyama replaced Shigeru Yoshida as Prime Minister of Japan.

B. This interim reaffirmation of existing policy directives is necessary also in the interests of healthy relationships between the executive and legislative branches of the government. During the present session of the Congress, it will often be necessary for the executive agencies to appear before the legislative branch and speak upon one aspect or another of the economic defense program. Unless it is clearly understood what the present governing policy is, misleading appearances of conflict between agencies will arise, and the executive may find the legislative branch responding to an unintended but implicit invitation to pronounce policy for the executive in the very field of government operations in which such rigid and insensitive formulation of policy is most to be avoided.

Tab A

MAINTENANCE OF ECONOMIC PRESSURES AGAINST COMMUNIST CHINA

It is important to keep the Chinese Communist regime under economic (and other) pressures. Such pressures add to the strains which can ultimately lead to disintegration; the Communist regime has undertaken heavy commitments, and it appears probable that it can not under present circumstances increase its resources fast enough to cover all commitments. This kind of dilemma tends to lead to a breakdown.

In a situation like the present one, where Chinese Communist intentions with regard to Formosa are clearly hostile, and their future course seriously threatens world peace, it would be highly impolitic to release the Chinese Communists from whatever harrassment and limitation the free world controls are causing. The reduction of controls would be taken by countries in Asia, in Europe, and by the American people to mean a change in policy towards Communist China which is not justified by the circumstances or by the behavior of the regime.

As long as the United States continues to maintain pressures against the Chinese Communists, the Communists are on notice that a strong and active opponent stands in the path of aggression which they would like to pursue. Continued actions in this field are more persuasive evidence of intentions than are mere statements.

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55. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Under Secretary of State (Hoover)[1]

Washington, March 25, 1955.

SUBJECT

"Interim Report on Review of Economic Defense Policy" (CFEP Agenda Subject 501)

The above-entitled Interim Report was drafted in this Department and has been approved and transmitted to the CFEP by the Steering Committee of which I am Chairman. We recommend, of course, that you support this paper in the Council discussion and that it be approved by the CFEP.

The purposes of the Interim Report are three-fold:

(1) *To establish that substantial time is needed, and is available, for a comprehensive review of the economic defense policy and program.* Several months are needed to accomplish the intelligence research and analysis requisite to any successful new approach toward further revision of the multilateral strategic lists for the Communist bloc as a whole. Only by such painstaking effort can we hope to harmonize the present divergent suggestions of the various agencies and to develop an adequate basis for negotiations with other countries. Fortunately, we are free at the moment from insistent pressure by other friendly countries against the general structure of existing controls.

Tab B to the Report blocks out an assignment for the review and sets a deadline of June 30 for presenting a draft to the Steering Committee. The Drafting Group is asked to formulate alternative courses of action based on varying assumptions as to the degree of

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[1] Source: Department of State, Central Files, 460.509/3–2555. Secret. Drafted by Goodkind.

East-West tensions, and to address specific attention to the various agency papers already submitted as preliminary suggestions.

(2) *To establish that no substantial change should be made in the economic defense policies and programs as of the immediate moment.* Considerable urgency has been attached in the past, especially by FOA and Commerce, to study of relaxation in the trade controls applied against Communist China. The Interim Report makes the fundamental point that under present circumstances political factors require maintenance of these controls at current levels. Tab A to the Report summarizes the reasons for this conclusion; it was prepared by FE, and is a close paraphrase of the Secretary's own words as uttered recently to Chinese Foreign Minister Yeh.[2]

Other changes or improvements in the controls, particularly those applying to Eastern Europe, are not of immediate urgency and can be usefully undertaken only in the context of the long-range program that should emerge from the forthcoming review.

(3) *To clarify the interim policy.* In order to avoid confusion, interagency controversies and an undesirable posture of conflict within the executive branch toward the legislative branch of the government, there should be a general re-affirmation of the existing NSC directives on economic defense policy for application pending the outcome of the review.[3]

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[2] For text of Dulles' conversation with George Yeh, see *Foreign Relations,* 1952–1954, vol. II, Part 1, p. 251.

[3] At the 15th meeting of the CFEP on April 5, the Council discussed, among oth[illegible] matters, the report by the Steering Committee on East-West Trade. According to [illegible] minutes of the meeting drafted by Cullen, "It was agreed that the Council adopt the recommendations. However, there was considerable discussion about the instructions to the Drafting Group. It was agreed that the Steering Committee in the report should (1) include examination of policies designed to weaken the entire economic position of the Soviet Bloc and Communist China as well as policies designed to reduce their relative economic potential for war including policies with respect to import and financial controls, and (2) grant first priority to review of the policy under the assumption of the existence of the present degree of East-West tensions." (Eisenhower Library, CFEP Records)

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56. Editorial Note

On April 21, Joseph Dodge transmitted the Steering Committee report on East-West trade to James S. Lay for the information of the National Security Council. (Department of State, S/P–NSC Files: Lot 61 D 167, Economic Defense Policy) Lay transmitted the report to the NSC that same day under cover of a brief memorandum. The memorandum noted that the CFEP recommendation would be considered at the Council meeting scheduled for May 5. (*Ibid.*)

On April 29, the Joint Chiefs of Staff submitted a memorandum to Secretary of Defense Charles Wilson regarding the Steering Committee report. The JCS noted that the reaffirmation of existing NSC directives on East-West trade, as recommended by the Steering Committee, "would be acceptable from a military point of view and accordingly recommend that you concur in the proposed action." (*Ibid.*) On May 3, Lay transmitted the JCS memorandum to the NSC under cover of a brief memorandum. (*Ibid.*)

The NSC meeting on economic defense policy that had been scheduled for May 5 was subsequently postponed.

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57. Telegram From the Embassy in the United Kingdom to the Department of State[1]

London, May 24, 1955—7 p.m.

5164. Excon. Reference Deptel 5786,[2] repeated Paris Topol 1693. Copper Wire. Foreign Office informally stated today HMG does not now consider it desirable hold talks with US representatives re justifications for copper wire embargo. As rolling mills discussion scheduled it would be difficult to push internally for joint talks this time on copper wire. Proposal such talks might lead unfavorable reactions and further delays. Embassy mentioned question of talks not indicated as formal request but desire make known availability of US representatives for such talks.

Embassy comment: Embassy believes UK authorities attempting at every opportunity arouse US interest in, and show their desire for a package settlement of various E–W problems outstanding. Discussions last week on communications material included even more pointed references to rolling mills and copper wire. Moreover in view this UK attitude believe UK authorities on every possible occasion will exert effort forestall US pressure for separate consideration of economic defense problems and that we can count on meeting delay when ever we seek settlement on this basis. This UK

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[1] Source: Department of State, Central Files, 460.509/5–2455. Secret. Pouched to Paris.

[2] Dated May 12, not printed. (*Ibid.*)

view persists despite our frequent statements that US believes cases should each be settled on strategic merits. [3]

Aldrich

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[3] Telegram 5535 from London, June 21, informed the Department that the U.K. position on copper wire at a COCOM meeting would be "categorically negative." (*Ibid.*, 460.509/6–2155)

Polto 2567 from Paris, June 24, reported on the COCOM discussion on copper wire of June 22. (*Ibid.*, 460.509/6–2455)

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58. Memorandum From the Chief of the Division of Functional Intelligence (Doherty) to the Special Assistant to the Secretary of State for Intelligence (Armstrong) [1]

Washington, June 24, 1955.

SUBJECT

Bargaining Value of Western Trade Controls at "Summit" Meeting [2]

1. We have learned that the Secretary of State and other senior government officials consider Western trade controls a valuable trump card in the forthcoming negotiations at the Summit with the Russians. Secretary Dulles recently stated that we can obtain important political concessions from the Russians by offering to relax Western controls over exports of strategic goods to the Bloc and by making available US agricultural surplus commodities at favorable terms.

The question is now being considered by the NSC Planning Board. Some Planning Board Members are taking the position that the Russians will make a major issue of the subject of trade controls because of their concern about them. Senior officials in the Departments of Commerce, Defense and Joint Chiefs of Staff also go along with the view that the US has an important bargaining position in present East-West trade controls.

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[1] Source: Department of State, Central Files, 460.509/6–2555. Secret. W. Park Armstrong, Jr., forwarded this memorandum to Waugh on June 25 with a brief covering note.

[2] Reference is to the meeting of the Heads of Government of the United States, the United Kingdom, France, and the Soviet Union scheduled to open at Geneva on July 18. See Document 62.

2. We believe that the Russians would be unwilling to make any but the most minor concessions to obtain either a relaxation of Western trade controls or US surplus agricultural commodities. While it is extremely difficult to evaluate the impact of Western controls on the Bloc economy it is certainly not of great significance. It is much less today than it was in 1949–50 when controls were first imposed, partly because the Bloc has had time to adjust to the controls and partly because there was a major relaxation in the control system in 1954. There is evidence to suggest that lack of foreign exchange may have inhibited USSR trade with the West as much as our export controls.

While the problem of Soviet agriculture is a serious one it is by no means critical nor is it of recent origin. If food shortages, as a result of inadequate agricultural production, were causing serious internal political difficulties the USSR was always free to import food supplies from the West. The export of agricultural commodities from the West is not legally controlled. The Soviet Union might very well like to obtain US agricultural surpluses for local currency and this would help with their program of collectivization in Eastern Europe. It is our view, however, that this and any other benefits that the USSR would derive from such surpluses would not be considered of sufficient importance as to warrant the making of any real political concessions.

3. The Russians have frequently spoken out against Western trade controls. This has been a recurring theme at international conferences, and was included in the USSR disarmament proposals of last May. It was repeated again in San Francisco in the June 22 speech by Molotov, at the United Nations ceremonies.[3]

The purpose of these statements is largely propaganda to divide the US from its allies and to put the onus for the breakdown of the world into two rival camps on the US. The point has been made with some truth that USSR would not like to see the complete elimination of trade controls because this would deprive them of an important propaganda weapon.

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[3] For text of Molotov's speech, delivered before the Tenth Anniversary Meeting of the United Nations at San Francisco, see *The New York Times*, June 23, 1955.

59. Telegram From the Embassy in the United Kingdom to the Department of State [1]

London, June 28, 1955—7 p.m.

5650. Excon. Reference: Deptel 6516, June 27. [2]

1. Basic British position averse to any extension controls not absolutely clear strategic necessity. FonOff officials stated Ministers took position when considering both shipping and copper wire problems that U.K. should not support any increased East-West controls at this time and that government was in fact very dissatisfied extent 1954 decontrols. According FonOff government's increased majority has had effect firmer views that East-West controls should be modified downward rather than increased.

2. Although FonOff appears understand Senator George's remarks [3] do not reflect present U.S. policy statement has nevertheless aroused hope in both public and government circles that in not too distant future U.S. will reconsider need for present degree control East-West trade.

3. If real détente as result Big Four meeting, British may well seek further decontrol including modification CHINCOM list.

4. High-level . . . official states British regret differences with us over shipping, wire and rolling mills and do not think useful attempt resolve them until after Big Four meeting. They would then be prepared resume effort. They fully prepared support controls at any time when convinced strategic necessity exists . . . . However, as reported Embtel 5535 [4] and reaffirmed today, not convinced present quantities copper wire shipments of strategic significance. Furthermore, they believe present shipment levels likely decline during forthcoming months. (statistics transmitted EmbDesp 3903, June 27, [5] show exports uncovered wire declining first four months 1955—no shipments April.)

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[1] Source: Department of State, Central Files, 460/509/6–2855. Confidential. Repeated to Paris.

[2] In telegram 6516, the Department stated that it was "surprised and extremely disappointed" with the British ministerial decisions to reject both the shipping and copper wire proposals. It instructed the Embassy to "present note soonest to UK expressing serious alarm and deep concern categoric refusal accept pending proposals re copper wire and ships and effect likely have on ability COCOM reach meaningful decisions in future when such UK decisions not based on strategic considerations." The Department also suggested that it might be useful to again suggest consultation with the United Kingdom on copper trade data. (*Ibid.*, 460.509/6–2455)

[3] Reference is to a statement made by Walter F. George on June 11, in which he called for greatly expanded trade between Japan and the People's Republic of China.

[4] Dated June 21, not printed. (Department of State, Central Files, 460.509/6–2155)

[5] Not printed. (*Ibid.*, 460.419/6–2755)

5. FonOff expressed willingness reconsider embargo copper wire if evidence available quantities actually contributing Soviet bloc strategic potential.

6. In view U.K. Ministers' present preoccupation Big Four talks and EmbOffs most recent soundings, Embassy does not believe any useful purpose would be served by presentation note expressing alarm and concern. Re-examining most likely fruitful approach these problems after Big Four meeting.

Aldrich

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60. Memorandum of Discussion at the 254th Meeting of the National Security Council, Washington, July 7, 1955 [1]

[Here follows a paragraph listing the participants at the meeting.]

Basic U.S. Policy in Relation to Four-Power Negotiations (NSC 5524; Annexes to NSC 5524; Memos for NSC from Executive Secretary, same subject, dated July 1 and 5, 1955; NSC Action No. 1419 [2])

[Here follows discussion of matters unrelated to economic defense policy.]

Mr. Anderson then went on to brief the Council on the paragraphs dealing with the U.S. position on East-West trade at the conference, noting the split of views in paragraph 27–a, where the majority proposal indicated that if the United States considered that its interests would be advanced thereby, the United States might agree to adopt a more liberal policy with respect to the export of non-strategic goods in conjunction with a demonstrated Soviet willingness "to expand East-West trade in non-strategic goods". The Defense proposal, as opposed to the majority proposal, stated that the United States should not agree to such a more liberal policy in the export of non-strategic items except in conjunction with Soviet willingness "to ameliorate the fundamental sources of tension between East and West".

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on July 8. For the complete text of this memorandum of discussion, see vol. V, p. 268.

[2] Regarding NSC 5524 and its annexes, see *ibid.*, p. 247. The memoranda of July 1 and 5 circulated copies of Allen Dulles' memorandum and the comments of the JCS, July 2, which are indicated in the discussion. (Department of State, S/P–NSC Files: Lot 61 D 167, NSC 5524 Series) NSC Action No. 1419, taken at the 253d meeting of the NSC on June 30, recorded actions to be taken by Stassen on disarmament.

After Mr. Anderson had explained the difference in these two viewpoints, the President expressed the opinion that this was one which must be played by ear. Secretary Dulles added that there was certainly a considerable difference of opinion as to the importance the Soviets attached to the relaxation of East-West trade restrictions. He said that it was his own feeling that our willingness to relax our trade controls was a strong negotiating card for us vis-à-vis the Soviets.

Secretary Humphrey said that in place of either of the proposed versions, he would substitute the phrase that we would adopt a more liberal trade policy in non-strategic goods "whenever the United States believed that its interests would be advanced thereby." The President added that that was precisely his view, of course, though he was willing to accept the version proposed by the majority.

Admiral Radford said that wasn't it a matter of what was strategic and what wasn't? All that the Soviets really wanted out of East-West trade were strategic items and stuff that contributed to their war potential. In reply, Mr. Anderson read sub-paragraph d, which pointed out that in no event should the United States reduce or eliminate its embargo on arms, ammunition, implements of war, atomic energy materials, or advance prototypes of strategic items.

The President observed that the topic of East-West trade seemed to him to arise at nearly every meeting of the National Security Council; hence the U.S. delegation to Geneva would be very familiar indeed with the views of the Council and there was not the slightest danger of making a mistake in this area, although in the area of East-West trade we might find ourselves on one side of the argument while our allies and the Soviets were on the other.

Mr. Anderson then turned to sub-paragraph e, dealing with the problem of being prepared to discuss trade with Communist China and pointing out that we should not at the Geneva Conference undertake to discuss this matter, for reasons set forth in the sub-paragraph. Mr. Anderson indicated that Mr. Joseph M. Dodge, Chairman of the Council on Foreign Economic Policy, had expressed his agreement with the views set forth in this sub-paragraph.

Governor Stassen said he believed that the allied attitude toward trade controls vis-à-vis Communist China was more favorable to the U.S. view than it had been two years ago. The President said that the fact of the matter was that we were not going to talk about these issues at Geneva.

Secretary Dulles said that he had that very morning suggested to Under Secretary Hoover that he take up with Mr. Dodge's Council those questions of economic policy and East-West trade that might come up for negotiation after the conclusion of the Summit Conference. Governor Stassen pointed out that unfortunately the Council on Foreign Economic Policy did not have any representation from the Central Intelligence Agency or from the Department of Defense, both of which had a legitimate interest and responsibility on the subject of East-West trade. He therefore suggested that instead of the Dodge Council, Mr. Hollister's people in the State Department provided the best forum for discussions on the U.S. position with respect to East-West trade and similar economic problems. The Hollister people could work out the U.S. position, in which process they would have representation from all the interested agencies. After the position was formulated, Governor Stassen thought that some kind of subcommittee of the Big Four powers would provide the best vehicle for the subsequent international negotiations. The important thing, in any event, said Governor Stassen, is that no single department of the Government can really advise the President on these matters.

The President took issue with Governor Stassen's argument, and said he believed that Mr. Dodge's Council, with the additional elements of representation from Defense and CIA, was the best instrumentality for formulating U.S. policy in this field. Mr. Hollister and his people had too many heavy operating responsibilities. In fact, said the President, it was for precisely such matters that we had set up the Dodge Council.[3]

[Here follows discussion of matters unrelated to economic defense policy.]

S. Everett Gleason

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[3] As a result of this meeting, the NSC adopted the paper under discussion, as amended, as 5524/1. For text, see vol. V, p. 287.

61. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Under Secretary of State (Hoover)[1]

Washington, July 12, 1955.

SUBJECT

Transmittal to the Dodge Council of Draft Report on Economic Defense Policy

Since early spring an inter-agency Task Force, created by the Council on Foreign Economic Policy, has been engaged in the comprehensive review of economic defense policy which the NSC instructed the CFEP to undertake. The Task Force has now completed a Report (Tab A)[2] and a draft proposed revised Statement of Economic Defense Policy (Tab B),[3] based on voluminous staff studies prepared as part of the review and to be forwarded in an Appendix to the Report. With very minor exceptions, the Report and Statement of Policy have been agreed upon between the agencies in the Task Force.

The subject of economic defense policy has been placed on the CFEP agenda for the meeting of July 19, and the Steering Committee of the Task Force plans to transmit the Report to the CFEP the middle of this week. Although the Report and Policy Statement will remain entirely open for discussion and change while it is under consideration in the CFEP (and subsequently, too, in the NSC), we should like, if time permits, to be assured, when the Report is submitted to the Dodge Council, that it meets with your approval in its general tenor and direction.

The principal findings and recommendations of the Report may be summarized as follows:

Principal findings:

1. Beyond the range of munitions, atomic energy items and prototypes of advanced technology, security trade controls against the Communist bloc, whatever the Free World's intent in withholding an export, will not necessarily assure that the Soviets will lack an item of the type embargoed, but will impose a cost upon the Soviet economy.

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[1] Source: Department of State, Central Files, 411.0041/11–2155. Secret. Drafted by Goodkind; concurred in by Robertson and Merchant.

[2] Not printed. This report, CFEP 501/6, was not attached to the source text; it is *ibid.*, 460.509/7–1355.

[3] Not printed. This draft statement of policy was not attached to the source text; it is enclosure 2 to CFEP 501/6, *ibid.*

2. The relative economic advantage of any East-West trade is greater for the Soviet bloc than for the Free World. Thus, leaving aside all considerations other than the economic, the cost of trade controls upon the Soviet bloc could be maximized by maximizing the curtailment of East-West trade.

3. For purposes of an economic defense program, this finding must be modified by a realistic appraisal of the impact of whatever trade controls are under consideration, weighed in terms of U.S. political objectives, both with respect to the Communist bloc and with respect to our relationships with our allies.

4. Even if maximized, the potential impact of trade controls on Sino-Soviet economic capabilities for war would be small; nonetheless, this impact is of value to the security interests of the Free World. The special higher level of controls now maintained against Communist China impose on that regime an aggregate additional cost estimated from 155 to 245 million dollars annually, the largest portion of which results from U.S. import and financial blocking controls.

5. In general, the effectiveness of the economic defense systems depends upon multilateral cooperation. Unilateral U.S. measures can be effective only under special circumstances.

6. Our major partners in East-West trade controls have always been most reluctant to adopt measures which they would regard as being in the nature of economic warfare against the peoples of the Communist bloc. Under present conditions, these other governments are unwilling to extend the scope and severity of multilateral trade controls. They are eager to reduce the levels of controls now applied against Communist China, and although they agreed last summer that the present narrowed scope of the control lists for Eastern Europe would be required for the "long haul", they would welcome some further relaxation in these controls also.

7. Except in the case of Japan, the objections of other friendly governments to the trade controls now are based primarily on political, rather than economic, reasons. Should world tensions increase, a stiffening of multilateral East-West trade controls might become negotiable. Should such tensions decrease, the pressures for relaxation of the multilateral China controls would become, as a practical matter, irresistible, and pressures would increase for further relaxation toward the European Soviet bloc as well.

8. Should downward adjustment in the multilateral China controls become necessary or desirable in the near future, the U.S. is not well prepared, in terms of criteria and listing techniques, to retain a level of export controls for Communist China, or for the whole Communist bloc, which would be higher than the present level for Eastern Europe.

Principal recommendations:

1. So long as current conditions of world tension prevail:

(a) Trade control systems of the existing magnitudes should be maintained, without either substantial extension or substantial reduction, both with respect to the European Soviet bloc and with respect to Communist China.

(b) The U.S. should refrain from *officially* encouraging "non-strategic" trade with the European Soviet bloc, but should *approve* shipments from the U.S. to Eastern Europe of such commodities (including agricultural products) when U.S. unilateral controls would not be effective.

(c) If U.S. policy calling for maintenance multilaterally of the present differential controls against Communist China should become unduly divisive between ourselves and our allies, the Secretary of State should immediately ask the NSC to consider what adjustments or solutions would be appropriate.

(d) Intensive work should continue on technical improvements in the economic defense program, such as study and development of more effective criteria and listing techniques, more effective enforcement of agreed controls and strengthening of the multilateral trade control organization.

2. In the event of a reduction in world tensions which would accompany a finding by the President that Communist China should no longer be regarded as an actual, rather than a potential, aggressor:

(a) The U.S. should undertake, with its allies, the establishment of multilateral trade controls on a long-haul basis of general uniformity, and of maximum economic impact consistent with U.S. political objectives, towards the whole Communist bloc.

(b) Consideration should be given at the same time to undertaking a progressive accommodation of U.S. trade controls, with a minimum of necessary exceptions, to those applied multilaterally.

3. In the event world tensions should significantly worsen:

The U.S. should press for a stiffening of economic defense measures, to the fullest extent of the negotiating opportunities then presented.

Recommendation: That you approve in general transmittal of the Report on Economic Defense Policy from the inter-agency Task Force to the Council on Foreign Economic Policy.[4]

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[4] The report was transmitted to the CFEP on July 13, under cover of a memorandum from Cullen. Transmitted along with the Steering Committee Report were the following enclosures: Steering Committee Proposed Policy Statement; Summary of Steering Committee Recommendations; CFEP Staff Proposed Policy Statement; Appendix to Steering Committee Report. (*Ibid.*)

62. Editorial Note

During the Heads of Government Meeting at Geneva, July 18–23, the specific subject of East-West trade was not discussed. The Department informed all diplomatic missions in Europe, as well as Tokyo, of this fact in circular airgram 1163, August 9: "While the specific subject of 'East-West Trade' was not discussed during the Conference of Heads of Government in Geneva, it was an integral part of the statements on 'The Development of Economic and Cultural Contacts Between East and West' by President Eisenhower, Prime Minister Eden, Prime Minister Faure and Chairman of the Council of Ministers of the U.S.S.R. Bulganin." The circular airgram included texts of each of those statements and the final directive of the Heads of Government to the Foreign Ministers. (Department of State, Central Files, 460.509/8–955)

In circular airgram 1267 to Paris and London, August 12, the Department explained that it desired to inform the other Participating Countries in the Consultative Group of the agreed United States-British-French position paper on East-West trade. This tripartite position paper was drafted just prior to the Geneva Conference, and the Department believed that the other Participating Countries might find it useful. Accordingly, the Department instructed the Embassies in Paris and London to deliver to the appropriate Foreign Office official a draft statement regarding the agreed tripartite position paper along with an "urgent request" that the United Kingdom and France cosponsor such a notification in COCOM. (*Ibid.*, 460.509/8–1255) For documentation on the Geneva Heads of Government Meeting, see volume V, pages 119 ff.

63. Minutes of the 25th Meeting of the Council on Foreign Economic Policy, Executive Office Building, Washington, July 26, 1955, 4 p.m.[1]

ATTENDANCE

Messrs. Hoover, Waugh, Kalijarvi, Goodkind, Morse, Butz, Paarlberg, Humphrey, Burgess, Willis, Weeks, Smith, Hollister, Charrette, Delaney, Hale, Wormser, Amory, Morrell, Guthe, Thorpe, Metcalfe, Cooley, Rock, Anderson, Johnson, Davis, May, Hauge, Rappapert, Hutchinson, Dodge, Galbreath, and Cullen

Draft minutes of the 24th Meeting, Wednesday, July 20, 1955, were approved as corrected.

AGENDA SUBJECTS

CFEP 501. East-West Trade.

1. The Chairman briefed the Council on the Steering Committee's report and proposed policy statement on economic defense (CFEP 501/6) which would replace NSC 152/3, and portions of NSC 5429/5. The Council expressed its appreciation of the work of the Steering Committee and Drafting Group in the preparation of these documents.

2. It was the consensus of the Council that no action should be taken on the proposed policy statement at this time since knowledge of any change in our present policy might prejudice the U.S. negotiating position at the October meeting of the Foreign Ministers.[2]

3. The Council requested the Steering Committee (a) to go forward with the studies which the Committee in its report had recommended be pursued, and (b) to prepare position papers on East-West Trade, particularly on subjects which the Department of State might suggest as useful and appropriate for the use of the United States negotiators at the meeting of the Foreign Ministers in October.

4. The Council expressed a desire to discuss East-West Trade problems at future meetings and in this connection instructed the

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[1] Source: Eisenhower Library, CFEP Records. Secret. No drafting information is given on the source text.

[2] Reference is to the meeting of the Foreign Ministers of the United States, the United Kingdom, France, and the Soviet Union, scheduled to open in Geneva on October 27. For documentation, see vol. V, pp. 537 ff.

Steering Committee to inform the Council of problems under consideration prior to the formulation of a position on these matters.[3]

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[3] On August 3, Joseph Dodge forwarded to James Lay the report of the CFEP Steering Committee on economic defense policy and the accompanying staff studies. (Eisenhower Library, CFEP Records) Lay circulated Dodge's memorandum to the NSC on August 8. (Department of State, S/P–NSC Files: Lot 61 D 167, Economic Defense Policy)

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64. Memorandum From the Deputy Director for Operations, International Cooperation Administration (DeLany), to the Director of the International Cooperation Administration (Hollister)[1]

Washington, August 8, 1955.

SUBJECT

Trade Controls

The attached cable expresses the intent of the French to call a CG (Consultative Group) meeting in September on the subject of the difference in the level of trade controls between Communist China and the Eastern European Soviet bloc.[2]

This would not only place the U.S. in an embarrassing position in view of the decision of the U.S., as expressed by the Dodge Council, that trade controls remain in a "status quo" at least through the high level meeting in October, but it would also result in a divisive action within the CG.

The fact that Communist China and the U.S. are meeting in Geneva now[3] does not by itself create a situation that warrants any relaxation of controls towards China.

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[1] Source: Washington National Records Center, ICA Director's File: FRC 61 A 32, Box 312, Trade/E–W. Secret.

[2] Telegram 549 from Paris, August 5, reported that on August 4 a French Foreign Ministry official informed Benson Timmons that the French considered the "disparity between level of Soviet bloc and China trade controls ineffective and that French wish to see this disparity eliminated by dropping Chinese Communist controls to COCOM levels." He also informed Benson that the French would request the convening of a Consultative Group meeting on September 27.

[3] Reference is to the talks between U. Alexis Johnson and Wang Ping-nan which opened in Geneva on August 1. The discussions concerned matters of mutual interest to the United States and the People's Republic of China. See vol. II, pp. 678 ff; volume III, and the microfiche supplement to volume III.

If it is the intent of the U.S. that trade controls towards both the Eastern European Bloc and Communist China are to be held in a status quo, then the U.S. will have to make a special effort to align other countries to support that intent. Without that it will be almost impossible for the U.S. unilaterally to avoid relaxation.

It is recommended, therefore, that the U.S. should approach the U.K., France, West Germany, Italy and Japan at the Ambassadorial level to seek their support in retaining the present level of controls until after the meeting in October.

This is a matter of urgency. Any member country can ask for a CG meeting on a particular subject. Our action is necessary now if we are to avoid this issue. This is of special significance because of the expressed intent of India to raise the question of UN embargo at the September meeting and the forthcoming visit of the Japanese Foreign Minister to the U.S.[4] and Adenauer's visit to Moscow.[5] An added consideration is the fact that D'Orlandi, the mentioned COCOM (Coordinating Committee) Chairman, is now in Italy during the recess of the Paris Committees which are scheduled to reconvene on 15 August.[6]

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[4] Japanese Foreign Minister Mamoru Shigemitsu was scheduled to visit Washington August 29–31. See Document 67.

[5] Konrad Adenauer, Chancellor of the Federal Republic of Germany, was scheduled to visit Moscow September 9–13.

[6] In a memorandum for the files, dated August 9, attached to the source text, Hollister noted that DeLany had called him late in the afternoon of August 8 to tell him that the French had officially called a meeting of the CG. DeLany stated that "he was convinced if such a meeting were held it would be difficult to hold the line against weakening of controls with respect to Communist China." Hollister also noted that he raised this matter at the Secretary's staff meeting on the morning of August 9, and it was agreed "that it was something of extreme importance on which action should be taken immediately." (Notes of the Secretary's Staff Meeting; Department of State, Secretary's Staff Meetings: Lot 63 D 75)

65. Telegram From the Department of State to the Embassy in France[1]

Washington, August 10, 1955—10 p.m.

143. Excon. Ref: Polto 185, August 8.[2] On Aug 10 Asst Secy Merchant requested French Ambassador[3] to communicate to Paris fact that Department disturbed and disappointed French Govt's unilateral steps to call meeting CG on September 27. Mr. Merchant said this action seemed to show disregard for fact that success and effectiveness COCOM operation in past had been based largely upon close prior collaboration and consultation among France–UK–US. It also disregarded substance and spirit of Tripartite agreement on E–W trade matters prior Summit Meeting. This position was that concessions on West's security trade control system should not be for commercial advantage alone, but should be related to disarmament and security. Progress toward such settlement could not possibly be judged until after October Foreign Ministers Meeting in Geneva. As to CG discussion of China controls, the US would regard as unthinkable a review of present system at a time when US-Communist China negotiations currently under way in Geneva at Ambassadorial level. These are delicate talks and only as they advance can it be possible to determine Communist China's future intentions. Mr. Merchant said that we did not oppose calling of CG, but timing could hardly be worse. Hence, we hoped that French could arrange for postponement of date for meeting.

In course of brief subsequent discussion French Ambassador was informed that whereas French had, apparently, made known CG Chairman's[4] intention to call meeting, COCOM Secretary General had not yet issued invitations. We did not, therefore, yet confront necessity of dealing with official invitation. This pointed out in order facilitate French retraction or amendment.

Mr. Merchant said, in conclusion, that we were aware that COCOM countries were doubtless interested in Tripartite handling of E/W trade question at Summit Meetings, and that Department was preparing report on this to be made available to those countries shortly. He assumed that UK and French would be similarly interested in doing this. (*Note*: Department has not yet decided whether this can be accomplished best through COCOM or diplomatic channel, or whether US–UK–France should render single or parallel reports.)

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[1] Source: Department of State, Central Files, 460.509/8–855. Confidential; Priority. Drafted by Barnett and approved by Merchant; also sent to London.

[2] Polto 185 explained the French rationale for proposing the Consultative Group meeting in September. It noted: "In making démarche without prior consultation with U.S. or presumably other PC's, French apparently want credit with own business community (increasingly restive over China controls) for seizing initiative, plus feeling that international climate presages relaxed controls in general. Embassy believes decision to ask for early CG stems from very high if not highest French level." (*Ibid.*)

[3] Maurice Couve de Murville.

[4] Giovanni D'Orlandi.

French Ambassador appeared somewhat abashed, and gave assurances that he understood our position perfectly and would communicate it to Paris.

Department is informing UK Embassy today of its attitude toward French proposal.

Embassies London and Paris and USDel should await further instructions on next steps. [5]

Dulles

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[5] Telegram 706 from Paris, August 17, reported that a French Foreign Ministry official informed the Embassy that day that the French had decided to postpone the proposed Consultative Group meeting until between November 10 and 15. (Department of State, Central Files, 460.509/8–1755) The Department informed the Embassy in telegram 621 to Paris, August 17, that Ambassador Couve de Murville had conveyed a similar message to the Department that morning, indicating that the French wished that tripartite conversations would be held to fix the exact time and agenda for the CG meeting.

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66. Memorandum of a Conversation, Department of State, Washington, August 11, 1955 [1]

PARTICIPANTS

The Secretary
Mr. Murphy
Mr. Waugh
Mr. Hollister
Mr. Merchant
Mr. Robertson
Mr. Jones
Mr. Goodkind

SUBJECT

Current East-West Trade Problems

The conferees first read a memorandum to Mr. Waugh from Mr. Goodkind, dated August 11, 1955 (copy attached). [2] This memorandum set forth informal comments on four East-West trade topics: (A) U.S. attitude toward a meeting of the Consultative Group ("CG"); (B) licensing the export of passenger automobiles to the USSR; (C) non-strategic U.S. exports to the European Soviet bloc; and (D) China trade controls.

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[1] Source: Department of State, Central Files, 460.509/8–1155. Secret. Drafted by Goodkind.

[2] Not printed.

Certain preliminary questions were asked. The Secretary inquired why it was felt that the U.S. controls put more pressure on Communist China than did the multilateral controls. It was explained that the higher level of multilateral export controls applied against Communist China than against Eastern Europe increased the cost to the Chinese Communists of procurement of these differential items through Eastern Europe, but an even greater cost in loss of foreign exchange was imposed, not by the still higher level of U.S. export controls, but rather by the U.S. import and blocking controls, which cut off dollar remittances and denied the U.S. market to Chinese Communist goods. The Secretary inquired whether the Chinese did not sell their products elsewhere and whether these products, such as bristles, did not come indirectly into the U.S. market. It was explained that the U.S. market was largely unique and irreplaceable for certain important Chinese products and that there was relatively small leakage of these goods into the U.S. via friendly countries. The import from friendly countries of paint brushes with Chinese bristles had been restricted; cashmere wool had presented some problems.

As background to the automobile topic it was explained that Ford was interested in the sale of 700 passenger cars to the USSR, but didn't want even to approach the Commerce Department for a license if the State Department were disposed to object to the transaction. It was assumed that the sale would be for cash, and in answer to a question from Mr. Murphy, it was explained that the earlier Chevrolet sale to Bulgaria had represented a cash transaction for which the license had been sought by an exporter of automobiles.

Discussion was then had upon the four topics dealt with in the memorandum.

Concerning the French call for a CG meeting, it was agreed that the date proposed was most untimely, and that as we had now asked the French to alter the date to November or December, we should simply await developments.

Concerning the related topic of the China controls, Mr. Robertson remarked that we should do everything possible to prevent any curtailment of the controls. However, it was felt here too that no detailed discussion was necessary now, since we hoped the meeting would be deferred. If we later had to face a meeting, a position paper would be drafted and discussed at that time.

Concerning the question of the export of Ford automobiles to Russia, the Secretary said he was inclined to let Ford make the sale. He then went on to develop some of his philosophy toward East-West relations in this "post-Geneva" period.

The Secretary said one should not expect the spirit of Geneva to operate to maintain the status quo in the world. Rather, the spirit of Geneva should accelerate the evolutionary processes toward German reunification and other Free World goals related to peace. Geneva, he said, had downgraded the attitude that certain positions in the way of the attainment of these goals were necessary for defense.

The present period, he said, is a sort of probationary period. If after some six months we can discern no progress toward our objectives, we may then have to go back to our old posture. This is a line of thought, he said, which he was presently engaged in hammering out with the President.

The Secretary said that we should do all we can now to create conditions that will encourage Russian willingness to pay the price for the new posture. In this respect he felt that we could create more pressure on the Russians if we start now to let some things move which are under our own control, with the threat of cutting them off again if the Soviets did not come through. If we hold back completely, the Russians may wonder whether they would really get anything once they had made concessions. Let some things go now, he said; let the Soviets taste how good this is and whet their appetites for more.

The discussion was then broadened to other non-strategic items. The pending case of rolled steel sheets was cited, it being pointed out that we had not licensed an item like that to the bloc for years, that such an item carried a greater connotation of relationship to military production and that the export would be more likely to imply a change of policy.

Mr. Hollister said the export of automobiles would release steel sheets for other purposes. The point also was made that steel sheets could be exported to the bloc by other countries.

The Secretary said we should let the steel sheets be exported (he pointed out, however, that if the steel sheets, or any other item, were sought to be exported to East Germany, we should check to make sure we did not frustrate any effort that the Federal Republic was making to use the pressure of curtailed trade to resolve the problem of the highway tolls).

Mr. Murphy inquired about heavy machinery or items of electrical equipment. The Secretary said we need not try to determine such cases hypothetically; the problem should be brought up again when and if such cases arose.

Mr. Waugh then pressed the question of agricultural exports. He pointed to the magnitude of our disposal problem and suggested that the Soviet bloc was one place where we might be able to dispose of substantial quantities of our surpluses. In reply to a question from Mr. Hollister, Mr. Waugh said he thought we could get gold from the Soviets if we offered our agricultural products at world prices. Allusion was made to the earlier plan to barter perishable agricultural products for non-perishable strategic materials, and to the Attorney-General's ruling barring certain actions under P.L. 480.[3] Mr. Waugh suggested that the legal status be reviewed and the policy questions be explored, particularly before Mr. Benson departed on his European trip.[4]

Mr. Robertson commented that agricultural products were high cost items in the Communist economy and that food had been highly strategic for the Chinese Communists. However, it was emphasized that the present discussion dealt only with possible exports to the European Soviet bloc.

Mr. Merchant said he believed that the USSR does not face any immediate food crisis. Therefore, and in line with what the Secretary had said regarding gaining leverage on the Russians by beginning to ease trade restrictions, perhaps as a sort of one-shot operation we should explore letting go a trickle that could be turned off.

The Secretary said that the question that concerned him was, could we turn this off? He was clear that we could cut off automobiles or machinery whenever we chose, but with agricultural surpluses, would we not be whetting our own appetites as well as the Russians'? Might we not be building up political pressures that we could not control? He would not want to start something we couldn't stop.

Mr. Waugh said he thought we could control public opinion and pressures through the farm organizations. The leaders of these groups are good men with whom we can work closely and who have a pretty good control over their members.

The Secretary said he was satisfied that the Russian leaders' change of tactics stemmed from two causes: one, that their old tactics had failed them; and two, that they are under great pressures from within to give their people more, particularly consumer goods. He said he believes the Russians will pay a real political price in Europe to be able to carry on with their new policies and not have to revert to their old policies. How big a price they will pay, he didn't know; this is what we shall find out in Geneva in October.

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[3] For text of P.L. 480, the Agricultural Trade Development and Assistance Act of 1954, enacted on July 10, 1954, see 68 Stat. 454.

[4] Secretary of Agriculture Benson was scheduled to visit several European nations between August 27 and September 9 in order to initiate negotiations for the marketing of U.S. surplus agricultural commodities. Documentation on his trip is in Department of State, Central File 033.1100–BE.

The Secretary concluded that we should go ahead and feel out the situation concerning possible sale of agricultural products. He agreed that the legal question should be reviewed and explored. He agreed that he should talk with Mr. Benson about this before the latter leaves for Europe. Mr. Waugh then suggested that Mr. Benson be invited to come with Messrs. Garnett and Butz to have lunch with the Secretary next week.

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67. Editorial Note

On August 29, Japanese Foreign Minister Shigemitsu arrived in the United States for discussions with United States officials. During the course of a discussion on August 31 between United States and Japanese officials, including Shigemitsu, Secretary Dulles made the following remarks regarding economic defense policy:

"With respect to trade with Communist China the Secretary said he had the feeling that this was more of a psychological than an economic factor. Japan never had a big trade with China proper, independent of its domination there. Korea and Manchuria were big markets after Japan's political influence was established there, but in the main China is a poor area and does not have much to export. The general experience of countries that have tried to trade with China is that they get nothing worthwhile except in return for highly strategic goods for which the Communists are willing to make a sacrifice in exchange. The Secretary doubted that a change in the control list would have great economic results. You may say, he added, that if that is so, shouldn't we modify the list to conform to the European list. The other side of the picture is that it is not easy to make a change unless it is occasioned by some act on the part of the Chinese which seems to call for some recognition on the part of the free nations. The Ambassadorial talks going on in Geneva have so far been unproductive. And at present the United States considers that there should be no relaxation of trade controls. He appreciated that the problem in Japan is partly political rather than economic but believed that Japan should cooperate with the United States because Japan also has a stake. Sooner or later some revision of the export list is inevitable but the time has not yet come." (Memorandum of conversation by Noel Hemmendinger; Department of State, Central Files, 033.9411/8–3155)

68. Telegram From the Department of State to the Permanent Representative at the North Atlantic Council[1]

Washington, October 1, 1955—2:05 p.m.

Topol 351. Excon. Confirm USDel at Oct. 3 meeting should follow Barnett–DeLany London presentation re maintenance China controls (Polto 461, London Polto 29[2]), i.e.

1. CG meeting should not be held until first week December or ten days after adjournment Foreign Ministers Meeting, whichever later. This would permit assessing not only Geneva discussions of Experts but also progress, if any, in Chinese-US Ambassadorial talks. (UK accepted ad referendum.)

2. US–UK–France should continue be bound by July Trilateral Agreements on handling East-West trade problems with USSR, i.e. no retreat from security trade control system except in return for substantial Soviet concessions in other fields, e.g., disarmament and security. (UK indicated their understanding this position remained so far as quadrilateral discussions at Geneva concerned.)

3. Re elimination China differential, US strongly opposes because

(a) UN has named Communist China an aggressor and adopted resolution calling for selective embargo. Therefore legal obligation treat Communist China differently from remainder Soviet Bloc;

(b) While some Europeans tend to regard aggression as over, US feels Korean armistice violations, arms and air build-up opposite Formosa, Chinese aid to Vietminh and increase defense budget for coming year indicate Chinese Communist aggressive intentions have not been abandoned;

(c) China embargo, even though somewhat frustrated by transshipments through remainder Bloc, still has measurable and important impact. It causes China expend additional cost for transportation and to Bloc middlemen (thus reducing total amount strategic goods China can afford), and hampers Chinese procurement thru delays and inconveniences. More importantly, controls are tangible indication that large group countries continue agree treat China as a pariah in family of nations. Continuation of this affront to their amour propre constitutes an effective form of pressure.

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[1] Source: Department of State, Central Files, 460.509/9–2855. Confidential; Niact. Drafted by Barnett and Buckle and approved by Barnett who signed for Dulles. Pouched to Bonn, London, and Tokyo.

[2] Polto 461, September 28, concerned the upcoming pre-Consultative Group tripartite talks between the United States, the United Kingdom, and France, scheduled to begin on October 3. It asked whether the U.S. Delegation should follow the same line regarding the maintenance of China controls as presented to the British in London recently by Barnett and DeLany. (*Ibid.*) Telegram 1267 from London, September 28, summarized the Barnett–DeLany conversations with British officials on September 26. (*Ibid.*) Polto 29 is not printed.

(d) US bears by far largest share military load, on behalf of Free World, in defense its security in Pacific area. Our views as to security requirements of area should be accorded special respect by countries bearing less responsibilities. We regard perpetuation of differential as essential for security reasons. Most promising means of relaxing tensions between US and China lie in current bilateral US–Communist China talks at Geneva. We believe minor concessions being made there by Communist Chinese are result of Free World firmness and pressure. To lessen firmness and relax pressure prematurely might well frustrate the prolonged and painstaking attempt now being made to move toward understandings and arrangements which might diminish danger of Chinese Communist resort to force. Europe as well as US would have much to lose from failure these talks which could result from Chinese belief that it can divide West without meeting US terms.

(e) US Congressional and public opinion. Believe our case convincing without adding this very important factor. But both France and UK aware our Congress has been uncompromising, hitherto, in its rejection of proposals to treat Communist China even on same basis as US treats USSR.

Re reduction European Communist Bloc controls, USDel should state US feels CG discussion these controls should be deferred until results Foreign Ministers deliberations demonstrate substantial quid pro quo performance in disarmament or security fields by USSR. No objection however use CG meeting as occasion for report to PC's on FonMin experts Geneva discussions.

[Here follows an instruction relating to national security.]

Dulles

69. Report by the Steering Committee of the Council on Foreign Economic Policy[1]

CFEP 501/7 *Washington, October 4, 1955.*

RECOMMENDATIONS CONCERNING U.S. POSITION ON TRADE ASPECTS OF AGENDA ITEM ON EAST-WEST CONTACTS FOR DISCUSSION AT FORTHCOMING FOUR POWER FOREIGN MINISTERS' MEETING

In connection with the formulation and implementation of the U.S. position upon the trade aspects of the agenda item on East-West contacts, to be discussed at the forthcoming Four Power Foreign Ministers' Meeting, scheduled to open in Geneva on October 27, the Council on Foreign Economic Policy:

I. With respect to controls over trade with Communist China and North Korea, notes with approval the U.S. position that such controls are not to be discussed or considered at the Four Power Meeting.

II. With respect to controls over strategic trade with the European Soviet bloc, notes with approval the U.S. position, presently agreed with the U.K. and France, that the strategic controls as such should not be negotiated with the Russians, that any adjustment in the scope of such controls would be a matter for determination by the West unilaterally, and that any such relaxation in these safeguards could be considered by the West only in the light of substantial Soviet concessions, not in the trade field alone, but primarily in the field of security.

III. With respect to "non-strategic" trade, i.e., trade in items not specifically rated as strategic for export control, recommends that:

A. As a general matter the U.S. be prepared to take those actions toward facilitation of East-West trade which can be accomplished within the present legal and policy framework and which lie within U.S. power readily to halt or reverse. Although no specific compensating concessions need be exacted from the Soviets as a condition precedent or simultaneous to these U.S. actions in an "earnest of good intentions" stage, the U.S. should not, and could not realistically, go very far toward eliminating trade barriers without obtaining assurance of some matching actions by the Soviets.

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[1] Source: Eisenhower Library, CFEP Records. Secret. On October 5, Cullen transmitted this paper to the CFEP, along with a transmittal memorandum by the Chairman of the Steering Committee and a guidance paper on which the recommendations were based. These accompanying documents, which were attached to the source text, are not printed.

1. Such U.S. actions toward reducing trade barriers should include: [2]

(a) Public statements by prominent U.S. officials making clear to the business community that the government actively favors the conduct of peaceful trade with the European Soviet bloc and U.S. participation, both governmental and private, in various promotional activities, including Soviet bloc trade fairs.

(b) A policy of general approval in licensing exports in borderline cases (including sales for dollars of government-held agricultural surpluses at or above world market prices) which might otherwise be denied.

(c) The progressive removal of the special individual export licensing requirement for the European Soviet bloc, through placing non-strategic (non-rated) items on general license to that area.

2. Such actions should be taken, disclosed or pledged during or shortly after the Geneva Meeting.

3. Upon decision by the Secretary of State that any of the specified actions is appropriate, its timing and pursuit should depend upon his advice as to the progress and probable outcome of the negotiations and as to the effect of the actions upon such outcome.

B. To the early stage of facilitative U.S. actions outlined above should be added: [3]

1. The barter of agricultural surplus for strategic materials when such action is in the national interest, in the event that a re-examination of the Attorney General's opinion should disclose that such barter is permissible under the present law.

2. An Executive Branch pledge to seek from the Congress amendment of Public Law 480 in order to permit sales of agricultural surpluses for local currency or (if statutory amendment is necessary) barter of agricultural surpluses.

C. As a general matter such other actions as would require or represent legislative or major policy change (e.g., restoration of the availability of most-favored-nation tariff rates to imports from the Soviet bloc, alteration of the policy against remittance of U.S. Government checks to Soviet bloc individuals, etc.) should be withheld until a later stage in negotiations and should not be taken until the Soviets themselves have made sufficient accommodation toward reducing the barriers to East-West economic and cultural exchanges.

D. The justification for U.S. actions to reduce or remove barriers to peaceful East-West trade need not be looked for in the trade field alone, but may be found in the wider field of cultural or technical exchanges, or in the fields of security and East-West political relations. However, the following specific actions which could be taken by the Soviets would benefit U.S. interests in the field of trade and commerce: (1) definition of a code of commercial practices to facilitate trade with Soviet bloc state trading organizations, (2) adoption of the multilateral standards for observing copyright and patent rights, (3) improvement of statistical reporting on production and trade, and (4) agreement to a recognized arrangement for providing non-partisan arbitration and adjudication of claims.[4]

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[2] For discussion of advantages and disadvantages see pp. 6–8 of Guidance Paper. [Footnote in the source text.]

[3] For discussion of advantages and disadvantages see pp. 9–11 of Guidance Paper. [Footnote in the source text.]

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[4] For further discussion see pp. 11–12 of Guidance Paper. [Footnote in the source text.]

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70. Telegram From the Office of the Permanent Representative at the North Atlantic Council to the Department of State[1]

Paris, October 6, 1955—7 p.m.

Polto 504. Excon. Subject: Pre-C.G. meetings. References: (a) Topol 351;[2] (b) Poltos 489,[3] 492,[4] A–217,[5] 494,[6] 497.[7] Supplementing previous reports (reference b), following are round-up comments and USDel personal impressions on main aspects above discussions:

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[1] Source: Department of State, Central Files, 460.509/10–655. Confidential. Repeated to London, Bonn, and Tokyo.

[2] Document 68.

[3] Polto 489, October 4, reported on the pre-Consultative Group meeting of the previous day between the U.S., British, and French Delegations. It summarized the French and British positions, noting that both countries favored an "early elimination China differential as unwarranted discrimination, ineffective and aiding economies of transshipping bloc countries to detriment Western economies." (*Ibid.*, 460.509/10–455)

[4] Polto 492, October 4, reported further on the pre-CG meeting of the previous day. It also summarized the meeting that had been held that day, during which the U.S. Delegation made a statement regarding its strong opposition to an elimination of the China differential. (*Ibid.*)

[5] Polto A–217, October 5, transmitted the texts of the opening statements of the French, British, and U.S. Delegates at the first pre-CG tripartite meeting on October 3. (*Ibid.*, 460.509/10–555)

[6] Polto 494, October 5, clarified the British and French positions on the reduction of strategic trade controls. (*Ibid.*)

[7] Polto 497, October 5, reported on the pre-CG meeting held that day. It also reported the reactions of the French and British Delegations to the U.S. rationale for opposing the elimination of the China differential. (*Ibid.*)

A. China Control Differential:

1. Both United Kingdom and French clearly unwilling agree China differential has any strategic value or is required by United Nations Embargo Resolution.

(a) Re strategic aspects, they disagree United States points or consider them irrelevant. While not flatly asserting China obtains all differential goods it wants through triangular deals and transshipments, they convinced at least substantial quantities go and therefore defeat embargo. Unpersuaded higher costs materially reduce Chinese acquisitions but consider point irrelevant anyhow since higher-cost net a strategic objective and since still means embargo as embargo defeated. Doubted differential produces "pariah" psychosis (feeling this insignificant as compared United Nations non-membership and denial diplomatic recognition). But, in any event, a political and not strategic consideration. Having only these two points to play, USDel had difficulty defending strategic value of maintaining differential but stressed objective of "political" considerations were strategic—i.e., maintaining peace in F.E.

(b) Re U.N. Resolution, they disagree it necessitates maintenance of differential, disagree it imposes "legal obligation", considered it really non-operative since Korean hostilities ceased, and felt that anyhow it would be met by denying China goods now on List I since that covers all categories specified in resolution (with possible exception, in French view, of some additional transportation items).

2. Both also felt United States domestic public opinion problem balanced off by same problem, in reverse, in PC's. In response off-record United States allusion to Battle Act, United Kingdom Del said Act merely talks about supporting U.N. Resolution, on which comments had already been made.

3. Both recognized importance Geneva bilaterals to United States and West. However, doubted differential constitutes real pressure and, even if so, value is decreasing and, if used, must be used very soon. Nevertheless, USDel gathered impression that, as political matter in light Geneva bilaterals, United Kingdom/French might be willing ease up somewhat on their objective of early elimination differential but, presumably, would be willing do so only in return for some commitment from United States on subject—e.g., advance agreement to do something about differential. In this context, easing up might be confined to agreeing some delay in implementing reduction.

4. In light past history Tri negotiations on security controls, and independently of para 3 above, possible that United Kingdom/French positions have some "give". However, firmness their initial position in favor total elimination differential suggests they would only very reluctantly accept reduction short of elimination. Even then would expect them to insist eliminating not only "deadwood"

but also items of major trade interest (e.g., iron/steel). Might further insist on some agreement concerning later elimination of remaining differential in which event result might amount simply to progressive rather than simultaneous peel-off.

5. Seems clear that, in absence advance Tri agreement, United Kingdom and French would make strong effort line up other PC's to support differential elimination at next C.G. tenor of remarks indicated French and possibly United Kingdom have already discussed with other PC's and found considerable encouragement. Manner and extent of approaches not indicated but both stated expectation "all other PC's" would support them. United Kingdom/French closely supported each other during Tri meetings which may have been by prearrangement.

6. Net impression: United Kingdom/French tactic in these discussions was to seek demolish any strategic argument for retention China differential or any argument based on U.N. Resolution and to limit United States position to political considerations in re Geneva bilaterals. Both seem convinced differential should not—and cannot—be maintained much longer, strongly determined to drive for elimination, and definitely planning do so at next C.G. They would much prefer move on Tri agreed basis and, in order have United States concurrence, may be expected be prepared make some concessions, on political (not strategic) basis and as negotiating compromise (see paras 3 and 4 above). As situation shaping up, choices facing United States seem to be:

(a) Very high-level effort to induce United Kingdom/French refrain from pressing for change in China controls for time being, on basis political objective not under-cut Geneva bilaterals. For such approach, assume they would expect information on United States plans and expectations on Geneva talks.

(b) Stand on reference a position, with any reinforcement possible, and battle it out in C.G. even with little, if any, support.

(c) Attempt negotiate some advance Tri compromise at C.G. Del level, along lines various possibilities indicated above or others. Believe such negotiation can be successful only if United States can either do some yielding now or, alternatively, declare what and when United States willing do in relaxation.

B. Soviet Bloc Controls:

1. Discussion this point limited and generalized since United Kingdom unable put forward very specific proposal. However, clear United Kingdom is determined seek early substantial reduction, considering that as important as China reduction. Triple rationale advanced—i.e., new concept global warfare, failure existing controls to serve their purpose, and consequent difficulty defend domestically. On other hand, French attitude is open for time being, until

outcome Geneva Foreign Ministers conference. If that outcome favorable (or not unfavorable), French may be expected support relaxation movement, very possibly to extent United Kingdom suggesting.

2. Unable evaluate specific scope United Kingdom plan until more definite version available but it clearly envisages very substantial reduction. As USDel understands concept, sees possibility United Kingdom would propose heavy pruning List I (perhaps with some new or upgraded items added) and elimination List II and maybe List III. United Kingdom has said a.e. and munitions lists would not be affected.

3. United Kingdom claims no inconsistency between proceeding with new concept and Tri position for Geneva. Gave only vague response to United States point that new concept is special matter, beyond competence certain delegations and not yet internationally established. Believe United Kingdom somewhat vulnerable on this point, particularly if not consistent with NATO status. In this connection, attention called to Polto A–218 October 5[8] (repeated London Polto A–57) recording United Kingdom comments during recent annual review examination.

4. Net impression: USDel feels best point exploit on this problem is United Kingdom prematurity, in relation need await outcome Geneva meeting and need allow adequate time for study specific proposal, before unveiling at C.G. this might be accompanied by stressing list reduction last year was geared to long-haul and too soon now to undertake further fundamental alteration. However, inclined believe United Kingdom will be sticky and therefore suggest pressure would best be applied bilaterally at high level.

5. As incidental observation, USDel raises question whether it would not be best to deal with China and Soviet bloc reductions matters together, since United Kingdom/French position on China controls is not ad hoc elimination of present differential but elimination of principle of any differential. Under their concept, China control level would therefore be reduced not only by elimination of existing differential but also by any reduction of bloc level itself.

Will need Washington guidance on above and reference b messages by October 14.

Perkins

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[8] Not printed. (*Ibid.*, 740.5/10–555)

71. Minutes of the 28th Meeting of the Council on Foreign Economic Policy, Executive Office Building, Washington, October 11, 1955, 4 p.m.[1]

ATTENDANCE

Messrs. Kalijarvi, R. Barnett, Radius, Nichols, Morse, Butz, Paarlberg, Burgess, McClellan, Smith, Fitzgerald, DeLany, Charrette, Hale, Brundage, Hutchinson, Anderson, Johnson, Amory, Guthe, Davis, Rockefeller, May, Thorp, Cooley, Rock, McCaskill, Galbreath, Rand, McGlauflin, Hauge, Cullen

(Dr. Hauge presided in the absence of the Chairman.)

Draft Minutes of the 27th Meeting, Tuesday, August 30, 1955 were approved as corrected.

AGENDA SUBJECTS

CFEP 501. East-West Trade.

1. The Acting Chairman reviewed the position paper (Tab B, CFEP 501/7)[2] submitted by the Steering Committee on Economic Defense Policy pursuant to the request of the Council to prepare position papers on East-West Trade for the use of the U.S. Delegation to the Four Powers Foreign Ministers' Meeting scheduled for October 27, 1955.

2. The Council approved the position paper (Tab B, CFEP 501/7) submitted by the Steering Committee with the following exceptions:

a. Par. III A 1—It was agreed that the Steering Committee should redraft the language of this paragraph toning down that part which states that the U.S. "actively favors" the conduct of peaceful trade and various promotional activities with the Soviet bloc. The Chairman CFEP was authorized to approve the [illegible]draft. It was agreed that the matter of timing of the statements should be left to the discretion of the Secretary of State.

b. Par. III B 2—While it was agreed by the Council that the United States negotiators should be authorized to pledge the Executive Branch to seek from Congress amendment to P.L. 480 to permit barter of government agricultural surpluses with the Soviet bloc if statutory amendment is necessary, there was basic disagreement among the members that the pledge should be extended to sales for local currencies.

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[1] Source: Eisenhower Library, CFEP Records. Confidential. No drafting information is given on the source text.

[2] Document 69.

The position paper, therefore, will delete reference to pledging the Executive Branch to ask Congress to amend P.L. 480 to permit sales for local currencies.

3. Use of the negotiating authority in paragraph III B 1 of the position paper is dependent on a favorable ruling by the Attorney General that barter of government agricultural surpluses is permissible under present laws.

4. It was agreed that the revised position paper as approved by the Chairman CFEP and the background guidance paper (Tab C, CFEP 501/7) would be transmitted by the Chairman CFEP to the Secretary of State. The letter of transmittal forwarding the position paper will note the disagreement of the Council on pledging the Executive Branch to ask Congress to permit sales for local currencies.[3]

[Here follows discussion of CFEP 530, "U.S. Participation in the International Wheat Agreement."]

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[3] Acting CFEP Chairman Hauge forwarded the revised position paper to Secretary Dulles under cover of a memorandum dated October 17. (Eisenhower Library, CFEP Records)

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72. Telegram From the Department of State to the Permanent Representative at the North Atlantic Council[1]

Washington, October 12, 1955—7:17 p.m.

Topol 401. Excon. Re Poltos 489,[2] 497,[3] 504.[4] Believe nonproductive for USDel continue trilateral discussions at this time. USDel should inform French and British colleagues that, view major differences in positions and relation subjects discussed during trilaterals to broader policy questions, e.g., NATO concept of future war, Foreign Ministers meeting and bilateral discussions between U.S. and Communist China, Washington will consult with U.K. and France through usual diplomatic channels later in month. Until broader policy issues are clarified U.S. feels trilateral meetings cannot resolve issues of substance and might create irritations over minor misunderstandings. Hence suggests meetings be adjourned sine die. Respective FonOffs, after forthcoming discussions, can decide when future meetings might be held.

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[1] Source: Department of State, Central Files, 460.509/10–655. Confidential. Drafted by Buckle and approved by Merchant who signed for Dulles. Repeated to London, Bonn, and Tokyo.

[2] See footnote 3, Document 70.

[3] See footnote 7, *ibid.*

[4] Document 70.

FYI. Dept. very much concerned over depth of cleavage between U.S. and U.K.–France on trade control matters and is considering making major approach during trilateral discussions immediately before Foreign Ministers meeting. End FYI.

Dulles

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73. Telegram From the Delegation at the Foreign Ministers Meetings to the Department of State[1]

Geneva, October 29, 1955—2 p.m.

Secto 72. At Tripartite meeting October 29[2] Secretary raised question of China trade controls saying he understood some desired to lower existing levels and expressed strong hope that no appreciable change would be made during present period. Macmillan said UK felt there should be substantial changes and asked for what period US wished to freeze the present controls. Was it a question of weeks or months. Pinay was not up to date on this question and it was agreed it would be discussed further by the three Ministers on October 31.

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[1] Source: Department of State, Central Files, 396.1–GE/11–1655. Secret.

[2] A detailed account of the tripartite meeting of October 29 is *ibid.*, Conference Files: Lot 60 D 627, CF 569.

74. Telegram From the Delegation at the Foreign Ministers Meetings to the Department of State[1]

Geneva, October 31, 1955—3 p.m.

Secto 99. Subject: China Trade Controls. At tripartite meeting this morning, Secretary emphasized importance in our negotiations with Chinese Communists of link between renunciation of force and trade embargo. Some hopeful progress being made re renunciation force and we are therefore most anxious maintain trade controls as point of pressure to get really effective declaration on renunciation of use of force which would serve all our interests in Far East.

Macmillan reviewed telegrams from O'Neill of which Department aware re October 28 talk with Chou En-lai. I went on to emphasize that UK feels strongly differential between CHINCOM and COCOM controls should be eliminated. This should be done through CHINCOM rather than UN mechanism. One great difficulty with CHINCOM is extent to which exceptions procedures utilized by UK's competitors. In view UK's dependence on foreign markets this creates situation which is becoming impossible to restrain because of public opinion. Unless CHINCOM list reduced COCOM level, there is great danger China controls breaking down completely. Pinay agreed in general with Macmillan's remarks, but said he had not had time fully study problem.

Secretary indicated he understood problem but was most anxious maintain present level controls for time being for bargaining purposes with Chinese Communists.

Foreign Ministers agreed discuss matter further after Pinay has opportunity further familiarize himself with subject.

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[1] Source: Department of State, Central Files, 3961–GE/10–3155. Secret; Limit Distribution. Repeated to London and Paris.

75. Telegram From the Delegation at the Foreign Ministers Meetings to the Department of State[1]

Geneva, November 16, 1955—6 p.m.

Secto 335. I told Macmillan today that I hoped UK could hold up any action on China Trade Control List until we had chance to use it as a bargaining counter in our bilateral talks with the Chinese Communists.

Macmillan said he would try to do so if I had a limited and definite purpose, though the Board of Trade would be opposed. He asked me to write him a letter giving him facts and reasons he could use.

Merchant earlier sent Kirkpatrick and De Margerie of French Delegation identical letters setting forth our arguments.[2]

I will send Macmillan personal note in confirmation our talks and referring to letter sent Kirkpatrick.[3]

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[1] Source: Department of State, Central Files, 396.1–GE/11–1655. Secret. Repeated to London and Paris.

[2] Merchant's letters to Sir Ivonne Kirkpatrick and Roland Jacquin de Margérie were delivered on November 16. In the letters, Merchant suggested that the strategic controls produced "an effective pressure" on the Chinese Communists and that the United States did "not want to throw away this major counter without getting something for it." Accordingly, he stated the United States "would wish strongly to urge the United Kingdom and France not to press for reduction of these controls at this time. We shall hope that our three Govts could agree either to postpone the holding of a consultative group meeting until the United States-Chinese talks have progressed further, or, if that is not feasible, to adhere to a common position along the above lines in the Consultative Group meeting." The verbatim text of Merchant's letter to Kirkpatrick was transmitted to the Department in Secto 341, November 16. (*Ibid.*)

[3] Dulles' letter to Macmillan, dated November 16, reads in part as follows: "This will confirm our talk this afternoon in which I expressed my strong hope that you would be able to hold off any action in the matter of controls on trade with Communist China until we had the opportunity to utilize this possibility in our current bilateral negotiations with the Chinese Communists in Geneva." He also enclosed a copy of Merchant's letter to Kirkpatrick, sent earlier in the day. (*Ibid.*, Presidential Correspondence: Lot 66 D 204, Dulles to Macmillan)

76. Memorandum of a Conversation Between the Japanese Ambassador (Iguchi) and the Assistant Secretary of State for Far Eastern Affairs (Robertson), Department of State, Washington, November 18, 1955 [1]

SUBJECT

Trade Controls

Mr. Robertson said that the Secretary had personally talked with the French and the British about the problem of trade controls and asked them to cooperate by retaining the present level of controls until the outcome of the Johnson–Wang talks becomes clear. We therefore do not want to bring this subject up at the meeting of the CG in December. We think that the British and the French are going to be willing to cooperate with us on this question and we would very much appreciate having the same kind of cooperation from the Japanese Government.

Ambassador Iguchi referred to the list of items which the Japanese Government had submitted [2] and said that he understood that this list was much longer than anything we had expected but he wondered whether perhaps three or four items of special interest to Japan could not be handled in some way. Mr. Robertson answered that from our point of view the timing would be very bad, since it would be likely to upset the whole structure of controls at this critical time, and he would appreciate it if the Japanese Government could defer any effort to secure action even on such items.

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[1] Source: Department of State, Economic Defense Files: Lot 59 D 439, China Policy 1955. Confidential. Drafted by McClurkin.

[2] Reference is to a 27-page note handed to U.S. officials by the Japanese Embassy on October 5, which included a list of items that the Japanese desired to delete from the International China Embargo Lists. The Japanese explained that they were submitting the list "in response to the suggestions made by the Secretary of State of the United States of America in the course of recent discussions in Washington, D.C." (*Ibid.*)

77. Letter From the Secretary of Commerce (Weeks) to the Under Secretary of State (Hoover)[1]

Washington, November 23, 1955.

DEAR HERB: As suggested in our phone conversation last Friday I am writing to indicate those aspects of East-West trade which are bothering us at this time. You will recall, perhaps, the difficulties we have had in respect to copper shortages during this current year, which resulted in establishing a quota on scrap exports substantially below the rate at which this material was exported during the past year. While our economy has been suffering from an inadequate supply of copper and a rise in price from 30¢ to 45¢ a pound, Britain primarily, along with a few other European countries, has licensed exports to the Soviets of copper in the form of wire to the extent of 111,000 metric tons during the past 12½ months. We feel, and we have some German support for this position, that immediate and strong efforts should be made in COCOM to put an embargo on the export of copper of all forms by all COCOM participants to communist countries.

We have just learned also that the United Kingdom has recently obtained COCOM permission to use the quotas of other COCOM countries to ship British-built jeeps to the Soviet bloc, and that COCOM has agreed to the transfer of 38 four-wheel drive automotive vehicles from the unallocated reserve quota in addition to 85 units from other country quotas. Furthermore, we have a report to the effect that a shipment of 100 tons of British jeeps has just transitted the Bosphorous for the destination of Constanza, Romania. Our acquiescence to these shipments by the United Kingdom is highly inconsistent with our recent action of suspending from export privileges two officials of the Willys–Overland Corporation because of their acceptance of an order for 100 jeeps shipped to Syria but ultimately transshipped to Romania.

Even more disconcerting is the continuation of unlimited quotas of many strategic items on International List II simply because none of the member countries would agree to reasonable quotas on such items as large horizontal boring mills of the elephant variety and many other machine tools considered as highly strategic and under embargo for shipment from the United States, as well as unlimited shipments of merchant vessels by European members of COCOM. This has rendered international control more of a myth than a reality.

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[1] Source: Department of State, Central Files, 460.509/11–2355. Secret.

Our problem is, should we now, in the light of the unproductive outcome of the recent Geneva Conference, support the consideration of a realistic control program in COCOM for early deliberation or, alternatively, should we support or ask for an early CG meeting to consider the whole East-West trade program in its broadest aspects? Consideration of these unsatisfactory situations either in COCOM or CG would have our support. A recent statement to the Herald Tribune Washington Bureau by Senator Carl Curtis[2] underlines the possibility of increasing the difficulties for the Administration if we are unsuccessful in obtaining international support for our East-West trade control objectives.

I assume that the CFEP will shortly receive a report from the Secretary of State in order to complete its consideration of the East-West trade problem on which CFEP withheld judgment until after the Geneva Conference. I look forward to having the benefit of your views on these matters.

Sincerely yours,

Sinclair Weeks

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[2] Carl T. Curtis (D.–Nebraska).

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78. Letter From the Under Secretary of State (Hoover) to the Secretary of Commerce (Weeks)[1]

Washington, December 3, 1955.

DEAR MR. SECRETARY: I have read with considerable interest your letter of November 23, 1955,[2] in regard to certain East-West trade problems. As you are aware, problems of this nature became particularly difficult to handle in the pre-Geneva atmosphere. I am hopeful now that the Geneva discussions are behind us that the Paris Committees will be able to proceed with their business on an orderly basis. We hope in this connection that the Secretary's representations to the United Kingdom and France will soon have placed us in a position where we could more accurately judge the extent to which the United States could now usefully press for improvement in the current multilateral control operations and where it would be in our interest to suggest an early meeting of the CG.

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[1] Source: Department of State, Central Files, 460.509/11–2355. Secret. Drafted by Goodkind and Stuart D. Nelson of ECD. A signed copy of this letter is in Department of Commerce Files, Office of the Secretary, Trade and Export Controls 1954–58 (Sinclair Weeks).

[2] *Supra.*

As to your particular concern, we share your feelings about the copper wire situation which has been a source of concern to us for a considerable period of time. The large amounts of copper wire licensed by the COCOM countries in the last fifteen months are very disconcerting since such exports obviously result in a substantial frustration of the embargo control over copper itself. As you doubtless know, we are faced with the fact that some months ago the British Cabinet took a firm position that this item should not be restored to the embargo list. Notwithstanding this decision, we are inclined to agree that a new effort should be made to plug this loophole in the embargo. Owing to the level at which the last decision on this question was taken in the British Government and on account also of other strategic control questions we now have pending with the United Kingdom and in the Paris Committees, careful consideration clearly has to be given to questions of the timing and the nature of any renewed negotiations for raising the level of controls over copper wire. These questions, however, are operating details on which our representatives in the Economic Defense Advisory Committee structure will be consulting with your representatives and those of the other interested agencies.

The matter cited in your letter concerning the exports of four-wheel drive vehicles by the British is quite a different sort of question. We have generally felt that it is permissible for a COCOM country to draw upon the reserve quota in accordance with COCOM procedures or to borrow from other countries' quotas as long as there is no effect upon the agreed global quota. As a matter of fact, we have at times suggested the use of the "borrowing" technique so that an individual country would not have to request an exception for a shipment in excess of the quota and so that the total level of shipments would be kept within the agreed global quota.

We do not feel that our acquiescence to the recent British shipments is inconsistent with the suspension action taken in regard to two officials of the Willys-Overland Corporation. In the first place, the type of vehicle involved is no longer under multilateral embargo as it was when the transaction in the Willys-Overland case was executed. Secondly, and more importantly, the reason for suspension of export privileges in the Willys-Overland case rested on the fact that the firm in effect knew that the purported destination of the shipment given to the United States licensing authorities was incorrect. The infraction of United States regulations represented by this deception would be grounds for punitive action whatever the level of control over the item might be at the time. Such a consideration is not present in the case of the United Kingdom exports of Landrovers; on the contrary, these exports appear to have been made in conformity with the applicable regulations.

Although we too would like to see the "3(d)" quotas eliminated, we have not felt that they permit "unlimited" shipments of items so controlled. It is our hope that both the other countries and ourselves will show greater flexibility in dealing with these items in the future and that COCOM will thus be able to agree upon specific quotas rather than 3(d) control. In this connection, it may be noted that COCOM will shortly undertake the usual periodic review of the List II quotas.

We are giving consideration, of course, to the relevance of the recent Geneva discussions to the possible policy implications of the review of economic defense policy which has been held in suspense by the Council on Foreign Economic Policy since last summer. Speaking generally, the discussions on the trade questions at Geneva developed substantially in accord with the predictions previously made by the United States. They provided us an occasion for demonstrating sincerity and constructiveness in our approach to the development of East-West contacts. On the other hand, they demonstrated the fact that the blame should be accorded to the Soviets for preventing progress toward this objective. It appears important to us that in the months to come we continue our flexible and reasonable treatment of trade control questions in order to emphasize and not to impair the record of good faith which we established at Geneva and in order to allow the attitude and actions adopted in furtherance of the President's policies to have the fullest opportunity for gradual and cumulative effect. We hope to prepare for CFEP consideration specific proposals based on the CFEP review and on our recent negotiations with the United Kingdom, France and the Soviet Union. These will have as their purpose the maintenance of a multilateral trade control system effectively contributing to free world security and unity.[3]

Sincerely yours,

Herbert Hoover, Jr.[4]

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[3] On December 3, Hoover forwarded a copy of this letter to Dodge. (Eisenhower Library, CFEP Records)

[4] Printed from a copy that bears this stamped signature.

79. Editorial Note

On December 3, Foreign Secretary Macmillan wrote to Secretary Dulles concerning the China differential. Macmillan noted that he and his colleagues in the Cabinet were under increasing pressure in the House of Commons and from British commercial interests to reduce constraints on trade with China. He added that he did not see how his government could resist this pressure much beyond the end of the year. Macmillan assured Dulles that, before taking any action to eliminate the China differential, the British Government would inform the China Committee. (Letter transmitted in telegram 2280 from London, December 3; Department of State, Central Files, 493.009/12–355)

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80. Telegram From the Embassy in the United Kingdom to the Department of State[1]

London, December 3, 1955—1 p.m.

2281. For Merchant. Received this a.m. from Wright (Foreign Office) letter to Merchant from Kirkpatrick re China trade controls. Text is as follows:

Dear Livie:

I am sorry not to have been able to reply sooner to your letter of November 16 about the future treatment of the China trade controls.[2] The government have been giving very serious thought to the issues involved and my Secretary of State has now replied to the letter he received from Mr. Dulles.[3] I attach a copy of this reply.

It is naturally our hope that the United States government may yet be able to agree to an alignment of the China list with that in force for the Soviet bloc. If we can march in step this would clearly be the best solution and would, I believe, given the strength of feeling here, be a real contribution to Anglo-American relations.

As things are, however, the government's position in defending the present scope of the China embargo has become untenable. Indeed the whole system of security controls on East/West trade is being undermined by the maintenance of controls which can no longer be logically defended on strategic grounds.

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[1] Source: Department of State, Central Files, 493.009/12–355. Secret; Priority; Limited Distribution.

[2] See footnote 3, Document 75.

[3] See the editorial note, *supra*.

Consequently if by the early days of the new year when Parliament reassembles an agreed alignment of the two lists is still ruled out, we shall inform the China Committee of the Consultative Group that H.M. Government can no longer see any strategic justification for banning the additional commodities for China, and that from January 15 we propose, by a gradual unobtrusive process, and over a period, to bring the United Kingdom list for China into conformity with the agreed list for the Soviet bloc. We should tell them that we intended to remove items in groups of two or three at a time giving the committee in each case advance notice of the item or group of items to be removed from the United Kingdom list and the date when removal would be operative.

While keeping our partners in the Consultative Group fully informed in this way we should not expect to make any general statement in Parliament. The gradual whittling down of our list, as opposed to a wholesale reduction, would be a further discouragement to publicity.

In concluding I should like to emphasise once more that our decision to proceed in this way has been taken only after earnest consideration and after my Secretary of State had successfully resisted strong pressure for an immediate change of policy so as to give your negotiators leisure to play the trade card in their discussions with the Chinese.[4]

Yours sincerely, Geoffrey Harrison[5] (for Sir Ivone Kirkpatrick)

Letter to Secretary Dulles mentioned paragraph 1 sent immediately preceding message as Embtel 2280.

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[4] Telegram 2302 from London, December 5, reported that the Embassy had sought a further clarification of the letters from Macmillan and Kirkpatrick at the "Ministerial level" that day. The telegram reads in part as follows:

"Foreign Office officials explained while firm objective of British Ministers is removal differentials COCOM China Committee lists, primary immediate purpose is relieve parliamentary, China trade groups criticism by removing from China list as early as possible those items in which trade interest presently greatest." (Department of State, Central Files, 493.009/12–555)

[5] Assistant Under Secretary of State in the British Foreign Office.

81. Letter From the Secretary of State to the President[1]

Washington, December 8, 1955.

DEAR MR. PRESIDENT: NSC 5429/5 of December 22, 1954, provides in paragraph 7c(2) that the United States should "urge other Free World countries to maintain the current level of export controls on trade with Communist China". It provides further in paragraph 7c(3) that, "Whenever it may be determined by the Secretary of State that further effort to maintain the current multilaterally agreed level of export controls would be seriously divisive among our allies or lead nations needing trade with Communist China toward an accommodation with the Soviet Bloc, the Secretary should report such determination promptly to the Council for consideration of appropriate action".

Since December, 1954, we have attempted to persuade other countries to maintain the multilaterally agreed controls, even though it was already apparent a year ago that other countries strongly believed the levels of controls applicable to Communist China should be reduced to the level applicable to the remainder of the Soviet Bloc. Notwithstanding our efforts the pressures in other countries for revision of the China controls have increased.

At Geneva I asked Foreign Secretaries Macmillan and Pinay to postpone consideration of revision of multilateral controls until the United States had reached a more advanced point in discussions with the Communist Chinese in Geneva. Both before and since these talks we have made unremitting efforts through other available channels to persuade the British, French and Japanese to hold the line.

The British response to our approaches definitively rejects our position and puts us on notice of their intention to act unilaterally in early January without observing the framework of multilateral procedures of the Consultative Group in Paris. The Japanese had informed us previously that in the absence of an agreement between the United States and Japan concerning a list of items to be dropped from the controls, the Japanese would support whatever position emerged in the Consultative Group as promising the maximum reduction in the differential China controls.

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[1] Source: Department of State, CA Files: Lot 60 D 171, East-West Trade Controls with Communist China. Secret. Drafted by Goodkind, Wright, and Barnett; copies sent to Robertson, Bowie, and Kalijarvi. Merchant forwarded a draft of this letter to Dulles on December 7, under cover of a memorandum which noted that he, Robertson, Bowie, and Kalijarvi concurred in the draft. Dulles approved the draft without change and, according to a note on the source text, delivered the letter to the President on December 8.

We are therefore faced with the question whether to negotiate immediately with the UK, and such other countries as may be necessary, to insure the continuance of the multilateral control system—albeit at a reduced level in the case of China—or alternatively to write off the CG structure and attempt to obtain satisfactory controls over trade by other means, e.g., bilateral arrangements buttressed by US economic and political pressures.

I believe there is no effective alternative to a voluntary multilateral control system. While bilateral pressures might coerce one or two countries into a halfhearted compliance, they would only alienate others—and the effectiveness of the system would be destroyed if one major producing country refused to bow to our pressures.

For the foregoing reasons I must report, in accordance with the requirement of NSC 5429/5, that our efforts to maintain the current differential export control towards Communist China have passed the stage of being divisive; they present us with the prospect of total disintegration of the multilateral control system.

To salvage this system we must accept a graduated reduction in the China controls to a level which will gain mutual agreement among countries participating in the Consultative Group. I recommend that I be authorized to begin negotiations as soon as possible with the United Kingdom and other interested countries as appropriate with the aim of preserving the multilateral control system and, through its orderly procedures, to maintain the controls over trade with China at the highest negotiable level but in no event below the level of the Soviet bloc controls.

Sincerely yours,

John Foster Dulles [2]

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[2] Printed from a copy that bears this typed signature.

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82. Editorial Note

At its 269th meeting on December 8, the National Security Council discussed the problem of multilateral export controls imposed by Free World countries on trade with the People's Republic of China and the British decision to reduce unilaterally the levels of control. For text of the memorandum of discussion at this meeting, see volume III, page 209.

83. Telegram From the Department of State to the Embassy in the United Kingdom[1]

Washington, December 10, 1955—12:32 p.m.

3258. For Ambassador. Please deliver following personal message from Secretary to Macmillan.

"Dear Harold:

At the National Security Council meeting yesterday, I talked with the President and the other members of the Council about the situation which might result from your proposal unilaterally to remove articles from the CHINCOM trade control list.

There was a strong feeling, in which the President concurred, that if there is unilateral action in these matters, the result will be not only a collapse of the entire cooperative structure but also a high degree of ill-feeling, as between our nations.

We are quite prepared to sit down and talk about the list, and no doubt we can agree on some liberalization. I do, however, hope that you will not make this a matter of unilateral action.

The President expressed the hope that we could talk this over when you and Sir Anthony are here on January 30. The purpose of our getting together is, I assume, to talk over matters of mutual concern and try to reach common policies. It would, I think, not be a very good prelude to this meeting, if, two weeks before we met, your government took unilateral action on a matter which is considered here, in governmental, Congressional, and public circles, as being of the utmost importance.

I think it most desirable that you hold up any action until we can talk it over. In the meantime we are prepared to have our experts sit down with yours so that there will be some available data by the time you and Sir Anthony get here.[2]

Faithfully yours, Foster Dulles"

Dulles

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[1] Source: Department of State, Central Files, 493.419/12–1055. Secret; Priority.

[2] In Dulte 1 from Paris, December 15, for the President and the Acting Secretary of State, Dulles reported that Macmillan had told him that day that, while it would be very difficult for them, the British Government would not take any effective action on the question of trade with China until the issue had been discussed during the upcoming trip of Eden and Macmillan to Washington. (*Ibid.*, 493.009/12–1555) Dulles and Macmillan were in Paris attending a meeting of the North Atlantic Council, December 15 and 16.

84. Letter From the Assistant Secretary of Defense for International Security Affairs (Gray) to the Under Secretary of State (Hoover)[1]

Washington, December 12, 1955.

DEAR HERB: Your note requesting my comments on the cables concerning the recent decision of the United Kingdom Government on controls over trade to Communist China has raised many questions in my mind. It seems to me that the British threat to unilaterally drop China controls if the United States does not agree with them prior to January 15, 1956 cannot be considered solely as a trade control problem, but has much broader implications for the United States and for the other countries engaged in Mutual Security Programs.

The British action is extremely dangerous since it would undoubtedly weaken the entire Security Trade Control Program. Their attitude appears to be that, if they cannot achieve a relaxation of trade controls through multilateral negotiation, they will unilaterally subvert the multilateral control machinery in order to satisfy the commercial pressures which strongly influence their security trade policies. The United Kingdom, or any other major participating country, can achieve this purpose unilaterally. Other countries have even greater interest and need for China trade than the United Kingdom, but only the United Kingdom has threatened to act so arbitrarily. If we adopt a conciliatory attitude toward the United Kingdom's threatened action, we can hardly expect the other participating countries to believe that the United States Government seriously desires to promote the security of the Free World through control of trade.

As you know, the controls over trade with Communist China are based on a broad list of items encompassing most of the major industrial categories. The Coordinating Committee (COCOM) controls consist of a few items from each of the major categories which are selected on the basis of very rigid criteria reflecting their relationship to current military production activities, advanced technology, or demonstrated deficiencies within the European Soviet bloc. Reducing the China Committee (CHINCOM) controls to the COCOM level would, therefore, release for direct shipment to the Communist Chinese a great many items of key industrial significance, such as electric-power equipment of small and medium sizes; machine tools, except the very largest types; copper wire; aluminum scrap; practically all types of transportation equipment, including cargo vessels; important types of communication equipment; crude petroleum; mining and petroleum refining machinery; construction machinery; general industrial equipment, including most of the components for the output of steel, aluminum, copper, chemicals, and other basic materials; and a host of other items. Making these available for direct import from the Free World would materially aid the Chinese Communists in their current efforts to expand military facilities for aggression against Asiatic areas, including Formosa, as well as ease their general economic situation.

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[1] Source: Department of State, Central Files, 493.009/12–1255. Secret.

With respect to the broader implications of the British proposal, I am sure that current negotiations with the Communist Chinese at Geneva would be jeopardized if it became known that trade was to be resumed by the Free World without the slightest indication that the Communist Chinese intend to modify their aggressive attitude. Surely, the political and economic impact of the United Nations embargo on strategic trade, the CHINCOM trade controls, the refusal to admit Communist China to the United Nations, combined together, represent effective pressure which the Communists strongly desire to have removed. If a major one of these pressures is released without a commitment of any kind by the Chinese Communists to alter their present aggressive courses of action, the entire position of the Free World is then weakened. In view of heavy United States military commitments in Asia and the need, in the event of further aggression, to increase these commitments, I cannot view the British action in this case as anything but detrimental to our security. I realize, of course, that a choice must be made between this loss of security, and possible injury to Anglo-United States cooperation which might result from clearly labeling the United Kingdom threat as irresponsible. It appears to me that the latter would be preferable in our present situation.

It occurs to me that there is real danger that knowledge of British lack of cooperation may cause Congress to restrict foreign aid appropriations and thus ~~hamper~~ the continuation of an effective mutual defense system. I do not suggest that this danger should be utilized as leverage with the United Kingdom Government, since they generally react negatively to such leverage. Nevertheless, this danger must be faced by the Administration.

Sincerely yours,

Gordon Gray

85. Memorandum From the Chairman of the Joint Chiefs of Staff (Radford) to the Secretary of Defense (Wilson)[1]

Washington, December 12, 1955.

SUBJECT

United Kingdom Proposals for Relaxation of Trade Controls with Communist China

1. Forwarded herewith is an advance copy of an Intelligence Estimate prepared and approved by the Joint Intelligence Committee of the Joint Chiefs of Staff.[2] The Joint Chiefs of Staff have not yet acted upon this matter, but I am forwarding this paper together with my comments because I believe the indicated trend of events is of grave significance to the national security of the United States. This estimate concerns the effects to be expected if the recent United Kingdom proposals relative to relaxation of trade controls with Communist China are implemented. I fully concur with the thoughts expressed in this estimate.

2. As you know, the United Kingdom has informed the United States that, failing U.S. agreement in reducing the level of trade controls against Communist China to the much lower level now in force against the European Soviet Bloc, the United Kingdom intends a unilateral relaxation of controls commencing about 15 January, 1956. Specifically, a U.K. official has stated the intention of that nation to take unilateral action and " . . . by a gradual unobtrusive process, over a period, bring the United Kingdom list for China into conformity with the agreed list for the Soviet Bloc . . . "[3] This proposed action allegedly results from the stated view that the United Kingdom can no longer see any strategic justification for continuing the present level of Communist China trade controls. I am deeply concerned with the military implications and the subsequent impact upon U.S. security which I believe would result from any relaxation of trade controls with Communist China at this time.

3. On balance, I consider that such stability as exists in the Far East today rests squarely upon the ability of the United States to convince both friend and enemy that we are determined and resolved to resist further Communist aggression in Asia, even by use of force if need be. We have built up and are supporting necessary

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[1] Source: CJCS Records, 091 China, April–December, 1955. Top Secret. Radford forwarded copies of this memorandum to the Joint Chiefs of Staff and the Chief of Naval Operations on December 12.

[2] Not attached to the source text and not found in Department of State files or Joint Chiefs of Staff Records.

[3] Ellipses in the source text.

indigenous military strength in order that certain free nations may be able to resist Communism with U.S. assistance. In the face of growing Communist strength in Asia, it will be increasingly clear to all that major aggression emanating from Communist China can only be countered and defeated through active use of U.S. military power. I believe that the greatest fear of our friends and allies in the Far East is the possibility of a change in U.S. policy which indicates a lack of resolution in this respect on the part of the United States. In the case of Korea, we gave tangible evidence of this resolution. Our continued support of some nations is further evidence. However, it is the Asian estimate of U.S. intentions in the future to deal with Communist aggression that will probably determine the continuation and caliber of collective strength in free Asia.

4. If the United States either adopts the course of action proposed by the United Kingdom or condones the unilateral action of that nation, I believe that our friends and allies of the Far East, together with the world as a whole, would view this as prima facie evidence that this government is retreating under Communist pressure. At a minimum, both the Communists and our allies would consider, with some validity, that this action represents a radical change in U.S. policy which clearly facilitates the eventual Communist domination of all Asia. The facts are that Communist China has been branded an aggressor by the United Nations; the present controls on trade with Communist China stem from that finding; Americans have been imprisoned and tortured in violation of International Law and human decency; Communist China has publicly identified the United States as its number one enemy; and as yet that nation has not seen fit to adopt international procedures and attitudes compatible with those recognized among the society of world nations. For the United States to relax trade controls with a nation which is still a technical enemy of the United States would be tacit forgiveness, if not approval, of that nation's actions and, in my opinion, would result in a condition of hopelessness among those nations which depend primarily upon us for their own security. I consider that any benefits which might have been expected from SEATO would be nullified; the morale of strong anti-Communist forces in Asia would be seriously shaken; U.S. prestige in Asia would reach a new low; friendship with the United States could well become a dangerous commodity; and the stoic temperament of the peoples of Asia would cause them to seek an accommodation with the Communists—all to the detriment of United States security.

5. Militarily speaking, then, I believe that the summation of the foregoing could well result in a rapid deterioration of the active indigenous military strength we have constituted in the Far East. Sizable defections to Communism are a distinct possibility and

would probably increase in tempo within a short time. This loss of friendly military strength in the Far East would, I believe, eventually require significant increases in our own military programs in order adequately to provide for U.S. security and to prevent a complete loss of the balance of power in favor of the Communists.

6. Some may think that eventual trade with and recognition of Communist China is a certainty. The answer to this argument is simply—maybe; however, the existing conditions in the world make it undesirable for this action to take place now. It is possible, although not probable, for changes to take place in the next few years in the imperialistic and belligerent attitude of Soviet Russia and Communist China. I do not believe that we can expect any improvement in this area if we now take action which contributes to the increased strength of the threat against us.

7. I consider that the British proposals require a timely decision on the part of the U.S. Government to adopt one of three possible courses of action. These are:

a. *Concur in British Proposals; U.S. and U.K. Jointly Remove Trade Differentials.*

This action would be interpreted worldwide as a complete reversal of our foreign policy. I believe the repercussions would be monumental, not the least of which could be a serious political upheaval within the United States. The strongest anti-Communist nations of Asia, namely, the South Koreans and Chinese Nationalists, would view this action as a slap in the face. The effects upon U.S. leadership among the free nations of the world could well be catastrophic.

b. *United Kingdom Takes Unilateral Action to Remove Controls, and the United States Retains Trade Controls.*

While a decision along this line would be better than the first course of action; nonetheless, this course would facilitate improvement in the economical, industrial, military and political position of Communist China. Further, it would ease the drain on Russian resources required by China. This course of action would notify the world, which unfortunately includes enemies of the United States, that the first major rift in Western solidarity had occurred. In face of the propaganda and speculation to be expected, it is possible that the rift would widen. Nevertheless, free nations and free people everywhere could take heart that the United States is willing to stand alone, if necessary, in the cause of justice and freedom.

c. *United States Retains Trade Controls and Attempts to Persuade the United Kingdom to Abandon Their Announced Course of Action.*

I believe that this is the only logical and sound course of action for the United States to adopt at this time. Once our government makes this decision, it must at the same time decide that solution b. above is preferable to a. Then and only then, the United States can:

(1) Inform the United Kingdom that if her proposal is implemented, it *will,* in fact, be unilateral because the United States has no intention of adopting a similar course of action.

(2) Point out to the British the detrimental effects upon U.S. national security which would result from U.S. agreement to relaxation of trade controls with Communist China together with the probable consequences of publishing United States–United Kingdom disagreement to the world.

(3) Emphasize the difficulty to be experienced by the Executive Branch of the government in explaining to the American people the logic of financial support for a nation which, in turn, is contributing materially to the economic recovery and military strength of an avowed enemy of the United States.

8. Finally, I believe the stated view of the United Kingdom, that it can no longer see any strategic justification for continuing the present levels of trade controls, is so significant as to require careful examination and analysis. Taken at face value, this statement implies a minimum of British recognition of the threat to United States security posed by the dynamic communist Sino-Soviet alliance in the Far East. Simply put, it means that the British desire for trade could be greater than their anxiety for collective security. It seems to me that there is also little recognition of the threat to Australia, New Zealand, and Malaya. I believe that the U.S.–U.K. alliance is of far greater importance to the United Kingdom than it is to the United States. It appears that we should make every effort to determine now the real strength of this alliance rather than at some later date when any faltering or signs of weakness would be an even greater blow to U.S. security. If the United Kingdom remains unconvinced and actually initiates the proposed unilateral action, I believe it will become necessary to re-examine completely the orientation of U.S. foreign policy or initiate appropriate U.S. actions which will have the effect of discouraging further British action in lowering controls. In this field we have possibilities in the field of trade which if imposed will have a great effect upon the British (for instance, reduction or cancellation of export licenses from Hong Kong).

9. I conclude that the United States should consider firm measures to deter the British from taking the course of action they propose. I therefore recommend that this government adopt a strong position against these British proposals and that this information be transmitted forthwith to the United Kingdom. As a concurrent step, I would suggest that the President request the British Prime Minister to delay any further action concerning these proposals until they can be mutually discussed during the Prime Minister's forthcoming conference here in late January 1956.

86. Memorandum of a Conversation, Department of State, Washington, December 21, 1955[1]

SUBJECT

Conference with The Secretary—December 21, 1955
Re CHINCOM Controls

PARTICIPANTS

The Secretary
Deputy Under Secretary—Mr. Murphy
Mr. Robertson—FE
Mr. Bowie—S/P
Mr. Prochnow—E
Mr. Jones—FE
Mr. Elbrick—EUR
Mr. Goodkind—ECD

The Secretary said that the Committee he had appointed, chaired by Mr. Prochnow, to consider the question of CHINCOM Controls was not with the idea that negotiations would start now. The purpose of the Committee was to prepare for negotiations and develop a consolidated American negotiating position. The job of the Committee, the Secretary indicated, was to find out where we can give without hurting our objectives, and particularly to give Japan some relief. He referred to G. I. sheets and indicated that if these were to be supplied to Red China, Japan, not Britain, should supply them.

Mr. Robertson asked the Secretary whether he had read his memorandum on the desirability of proceeding with negotiations with Japan immediately.[2] He pointed out that the Japanese had been contacting us for some time now with reference to the 111 items they would like to see eliminated from CHINCOM controls. He emphasized that our objective was to maintain multilateral controls at the highest levels we could and that Japan of all the countries affected was closest to our position. After a short discussion, the Secretary approved our negotiating with the Japanese on CHINCOM controls on an exploratory basis. Mr. Merchant's memorandum on this subject was called to the Secretary's attention during the discussion and both he and Mr. Robertson indicated concurrence.[3]

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[1] Source: Department of State, Central Files, 493.009/12–2355. Confidential. Drafted by Howard Jones on December 23.

[2] The memorandum of December 21 reads in part as follows: "I believe that our best possibility for emerging from a Consultative Group meeting with a China differential maintained is to enter that meeting with agreed bilateral positions with as many CG members as is possible. The starting point for such bilaterals should be Japan because of its recognized prime interest in this problem and because its position is closer to ours than is that of any other major nation." (*Ibid.*, 493.009/12–2155)

Mr. Bowie pointed out the necessity for changing the NSC directive in order to give us permission to negotiate reduction in the level of CHINCOM controls as well as to provide negotiating latitude. The Secretary replied that the President has taken this over and that the NSC could not direct the President what to do. He said that the letter which he had written to Macmillan was in effect the President's letter and expressed his view. The NSC directive, therefore, should be brought into conformity with the letter. He requested that this be done at the next meeting of the NSC.

The Secretary then observed that in our discussions with the British we would have to meet their point that all CHINCOM does is to let these embargoed commodities in at the back door instead of the front door. He said before the President meets with Prime Minister Eden, the President will want to know what items he can drop out of the CHINCOM list without interfering with our objectives too much; that this list on which we are prepared to yield should be buttressed by strong reasons against reductions in other items. As for the back door argument, the Committee should go into the question of delays in deliveries, the status of transportation and the difficulties this causes the Chinese, the extra costs involved, etc. He emphasized that we must have strong defensive arguments and these arguments must be based upon facts.

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[3] In this memorandum to Robertson, dated December 21, Merchant expressed apprehension about "reaching bilateral agreements with the Japanese for the deletion of specific items in advance of agreement within the U.S. Government on our tactics in COCOM". He hoped Robertson could delay meeting with the Japanese. (*Ibid.*, 611.94/12–2155)

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87. Editorial Note

At its 271st meeting on December 22, the National Security Council discussed controls on trade with the People's Republic of China and the United States response to the British decision to relax controls. For text of the memorandum of discussion at this meeting, see volume III, page 225.

88. Minutes of the 36th Meeting of the Council on Foreign Economic Policy, Executive Office Building, Washington, January 12, 1956[1]

ATTENDANCE

Messrs. Hoover, Prochnow, Goodkind, Humphrey, Burgess, Garnett, Amory, Williams, Cooley, Gray, Thorp, Davis, Weeks, Smith, McClellan, Anderson, Johnson, Brundage, Hutchinson, DeLany, Hauge, Dodge, Cullen, Rand

Draft Minutes of the 35th Meeting, January 4, 1956 were approved as corrected.

AGENDA SUBJECTS

CFEP 501—East-West Trade.

1. On December 28 [*22*], 1955, the National Security Council by NSC Action No. 1494 requested the CFEP to prepare a U.S. position paper on controls over trade with Communist China for the use of the President at his forthcoming meeting with Prime Minister Eden.[2] Pursuant to the NSC request, the CFEP established a special interdepartmental committee composed of Mr. Gray (Defense), Mr. McClellan (Commerce) and Admiral DeLany (ICA), under the chairmanship of Mr. Prochnow (State) to prepare the U.S. position for Council approval.

2. The Committee's recommendations are contained in CFEP 501/8 which was distributed on January 11, 1955.[3] The Committee has submitted a negotiating position paper (Incl. 1 to CFEP 501/8) which is supported by two position papers (Incls. 2 and 3 to CFEP 501/8).

3. The Committee recommended that the U.S. advise the United Kingdom that the U.S. intends to make no change in its policy of complete embargo against Communist China; and that the United States believes that the Free World should at this time strengthen rather than soften the multilateral export controls against Communist China, but if concessions must be made to preserve the multilat-

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[1] Source: Eisenhower Library, CFEP Records. Secret. No drafting information is given on the source text.

[2] See the editorial note, *supra*.

[3] CFEP 501/8 was forwarded to the Council on Foreign Economic Policy on January 11, under cover of a memorandum from Cullen. It included a series of recommendations by the special committee; a negotiating position paper; and two alternative position papers, one supporting no policy change and the other supporting minimum reductions in the China differential. Also included with CFEP 501/8 was a transmittal memorandum from Herbert Prochnow to Joseph Dodge, dated January 11. (Eisenhower Library, CFEP Records)

eral control system, the United States should acquiesce to a minimum reduction of controls confined to 19 items selected in part from recent exceptions requested by Japan; and to an *exception* for Japanese export of wooden fishing vessels which are now being sold by Japan to Russia. As a corollary, the U.S. should obtain British consent to the restoration of controls over copper wire exports to the European Soviet bloc and the establishment of quantitative controls over List II ships (merchant vessels). If the British will not agree to either of the above positions, the Committee recommended that the United States make no further concessions unless it becomes apparent that the multilateral control structure will collapse, in which event the United States position should be reviewed.

4. The first recommendation is supported by a position paper (Incl. 2, CFEP 501/8) which states that controls should not be reduced because:

a. Communist China is still an aggressor nation.
b. Present controls result in significant economic and political pressures on Communist China.
c. Reduction of controls would damage Free World interests by prejudicing current Sino-U.S. negotiations, impairing the prestige of the U.S. and the Free World in the Far East, and by adversely affecting U.S. public and Congressional opinion so as to impair flexible administration of the Battle Act.

5. The second recommendation is supported by a position paper (Incl. 3, CFEP 501/8) which recommends certain minimum reductions in the multilateral export controls only if necessary to preserve the multilateral control system. Agreement on minimum reductions could be sought on the basis of the level to which Japan might agree plus other minimum reductions of interest to other Consultative Group countries. It would be reasonable to meet the Japanese requests because of Japan's need for enlarged export markets, because Communist China represents a nearby export market and source of raw materials, because availability of a Communist Chinese market might ease the pressure of Japanese exports on Free World markets, and because Japan is most entitled to relief.

6. The 19 items selected for deletion from the embargo list include dynamometers, antimony, materials for food and textile processing, materials for the drug and plastic industries, light buses, fire trucks, and thin galvanized iron and steel sheets.

7. After extended discussion of the many aspects of the problem, the Council approved the negotiating position paper (Incl. 1, CFEP 501/8) and the two supporting position papers (Incls. 2 and 3,

CFEP 501/8) and requested the Chairman to forward them to the NSC.[4]

[Here follows discussion of overall foreign economic policy.]

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[4] On January 13, Dodge forwarded these papers to Dillon Anderson under cover of a brief memorandum. (*Ibid.*) The same day, Dillon transmitted the papers to the NSC with a brief covering note of his own. Also enclosed was a copy of an aide-mémoire from the British Embassy to the Department of State, dated January 3, which reads as follows:

"1. The considered view of Her Majesty's Government is that maintenance of the China 'differential' is no longer defensible in the present circumstances. The objective of Her Majesty's Government is the alignment of the China and Soviet Bloc embargo lists. In order to help meet United States difficulties, however, they propose spreading the relaxation over a period of a year.

"2. With this in mind, Her Majesty's Government would welcome agreed action by the members of the Consultative Group on the following lines:

"(a) certain priority items, of which Her Majesty's Government have drawn up the attached list, should be dropped from the embargo list over the next six months;

"(b) the remaining items of the 'differential' should be dropped from the list during a period of a further six months, the whole operation taking a year to complete.

"3. Her Majesty's Government are making this communication in the belief that discussions will be more fruitful if the United States Government are aware of their proposals before the Prime Minister's visit at the end of January. After the United States Government have studied them, Her Majesty's Government would welcome talks between officials, preferably in London, as long as possible prior to the Prime Minister's visit." (Department of State, S/S–NSC Files: Lot 62 D 1, Communist China: Multilateral Export Controls on Trade with)

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89. Memorandum From the Chairman of the Council on Foreign Economic Policy (Dodge) to the Under Secretary of State (Hoover)[1]

Washington, January 13, 1956.

SUBJECT

Soviet Economic Offensive in Relation to the British Proposal to Substantially Reduce Export Controls on East-West Trade

One point not mentioned in the discussion at yesterday's meeting may suggest the basis for a strong counter-argument.

Because of the totalitarian aspect of the Soviet Government, it can arbitrarily extract a percentage from its gross national product in various categories of production for sale abroad, regardless of domestic needs.

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[1] Source: Department of State, Central Files, 460.509/1–1356. Secret.

This is used as an aggressive threat to the economic, trade, and political stake of the British and other European nations, in the Far East, the Middle East, and Africa, which are areas of principal concern to the United States and its Allies.

The substantial reduction already made in the level of the COCOM controls, coupled with some degree of evasion and weakness in implementation undoubtedly has contributed to the Soviet ability to undertake in this economic offensive without too much penalty on its domestic economy.

The further the Soviets go in their economic and trade offensive, the greater the penalties should be on its domestic economy, unless the penalties are relieved and the offensive is assisted by increased imports from the Western Nations, which, in turn, can help increase the threat to their own economic and political stake in the nations of these critical areas.

In the background are the obligations of the Soviets to help industrialize and militarize China which any further substantial relaxation on trade controls would facilitate. There have been continued Soviet offers of a virtual trade monopoly for West Germany in the industrialization of China.

For these reasons, the Soviet economic offensive can be strengthened and assisted, and any economic counter-offensive by the Western Nations can be weakened or made less effective, by a relaxation of the level of trade controls.

The trade and political interests in these critical areas may be better protected by increasing the level of controls and strengthening their implementation. [2]

Sincerely,

Joseph M. Dodge

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[2] On January 16, Hoover replied: "In my opinion you have presented a strong argument for not having a substantial reduction in CHINCOM or COCOM controls." (*Ibid.*) Hoover sent copies of Dodge's memorandum to MacArthur, Kalijarvi, Robertson, Merchant, and Macomber.

90. Special National Intelligence Estimate[1]

SNIE 100–56 *Washington, January 17, 1956.*

POLITICAL EFFECTS OF A RELAXATION OF CONTROLS ON TRADE WITH COMMUNIST CHINA[2]

The Problem

To estimate the political effects if the non-Communist nations now adhering to CHINCOM should reduce their controls on trade with Communist China to the level maintained on trade with the European Bloc, but with the US maintaining its present controls.

The Estimate

I. Introduction

1. International agreement to apply unified trade controls against the European Soviet Bloc became effective in January 1950 with the formation by the major Western allies of a Consultative Group to establish policies for controls over trade with the Communist Bloc, and a permanent working group (COCOM) to coordinate the application of these policies. The members of this group were the US, UK, France, Italy, Netherlands, Belgium, Norway, and Denmark; later West Germany, Canada, Portugal, Greece, Turkey, and Japan joined. Cooperation with Austria, Sweden, and Switzerland was developed, and to a lesser degree with nonparticipating nations receiving US aid.

2. In June 1950, mainland China and North Korea were brought within the scope of the export controls exercised by the COCOM countries, and in December 1950 the US applied a complete embargo against shipments to Communist China. Following the UN resolution of 18 May 1951 calling for restrictions on trade with Communist China,[3] the COCOM countries in January 1952 raised their controls on Communist China trade above the level of those applied to the European Bloc, thus establishing the so-called CHINCOM differen-

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[1] Source: Department of State, INR–NIE Files. Secret. Special National Intelligence Estimates (SNIEs) were high-level interdepartmental reports presenting authoritative appraisals of vital foreign policy problems on an immediate or crisis basis.

[2] According to a note on the cover sheet, the following intelligence organizations participated in the preparation of this estimate: The CIA and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and the Joint Staff. All members of the IAC concurred with the estimate on January 17 with the exception of the representatives of the AEC and the FBI, who abstained on the grounds that the subject was outside their jurisdiction.

[3] See Annex A for the text of this resolution. [Footnote in the source text. Annex A is not printed.]

tial, and later formed a China Committee (CHINCOM). Thirty other countries also imposed some degree of control on their exports to Communist China in response to the UN resolution. Under the Battle Act[4] passed by the US Congress in October 1951, US assistance may be extended only to nations which adhere to embargoes and export controls approved by the US government. CHINCOM controls were applied to North Vietnam as of 1 March 1955.

3. So long as hostilities in Korea continued, the above countries agreed to maintain controls, though with varying degrees of enthusiasm. However, after the end of these hostilities, and particularly after the Indochina armistice of mid-1954, there was a growing belief among the allies of the US that there were substantial prospects for a relaxation of tensions. In this situation, differences of opinion concerning the appropriate level of controls on Bloc trade became an increasing irritant in US relations with many of its allies. In part to meet the objections of its allies, and in part to devise a system of controls which could be implemented over the "long haul," the US in August 1954 consented to a reduction and revision of COCOM controls. But a decision concerning a reduction of CHINCOM controls was deferred. However, sentiment continued to grow in many states for a reduction of controls, and in December 1955 the British formally notified the US that the UK would reduce CHINCOM controls to the COCOM level, unilaterally if necessary. Subsequently, in January 1956 the British proposed to the US that this relaxation be made through a gradual process extending over a year. In October 1955 the Japanese government informally approached the US government with the suggestion that export controls on 111 items on the CHINCOM list be modified substantially. On 15 December 1955, the Japanese submitted to the US their detailed arguments for exceptions on 11 of these items.

II. Attitudes Toward Trade Controls

Free World

4. The attitudes of those Free World countries proposing a lowering of trade controls are, although sincerely held, motivated generally by political and economic considerations not necessarily in consonance with US views regarding the security of the Free World. The Sino-Soviet Bloc tailors its propaganda to exploit individual national sensitivities, economic problems, and aspirations. It ties the issue of trade controls to propaganda stressing world peace, Sino-

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[4] The Mutual Defense Assistance Control Act of 1951, commonly known as the Battle Act after its sponsor, Representative Laurie C. Battle, entered into force on January 24, 1952. For text, see 65 Stat. 644.

Soviet desire to avoid war, and alleged US belligerence. To the extent that this propaganda is accepted, various Free World countries find their arguments against trade controls buttressed. In addition, a particular nation, even though feeling no strong pressure for the reduction of trade controls, is almost certain to oppose such controls when it learns that another nation is about to abandon them and thus gain a possible preferred status. In the paragraphs which follow, the attitudes of Free World nations toward trade controls are set forth.

5. *The United Kingdom*. Dissatisfaction with the present system of trade controls is of long standing in the UK and has steadily increased. Pressure has been exerted on the government to sponsor liberalization of the whole range of strategic controls, but it has been particularly insistent that the existing differential restrictions on trade with Communist China be rescinded. The predominant British view, both within and outside the government, toward trade controls is that they should not be allowed to harden into a rigidly prohibitive system and should be confined to items which are of demonstrable importance to the military capabilities of the Soviet Bloc. The government, while generally accepting the view that changes in present controls should be the subject of international negotiation rather than unilateral action, now contends that the CHINCOM controls are both anomalous and ineffective. Moreover, the British now regard it as unlikely that the Communists would offer any concession in return for the relaxation of controls.

6. The British government's opposition to present CHINCOM controls rests on the belief that the controls have failed in their basic purpose of limiting the growth of Communist strength, and at the same time have become counterproductive because of their divisive effects on the Free World. The British have pointed out that the commodities embargoed to the Chinese Communists can be, and are in fact, purchased via the European Bloc countries. While the circumvention of controls in this manner entails increased transshipment, transport, and in some cases, purchase costs, the British contend that these are not of significant magnitude. The British believe, on the other hand, that maintenance of these controls is no longer in keeping with the developing political situation in an era of "competitive coexistence," and that it tends unnecessarily to place the Western Powers in opposition to the policies of India and other neutral states. They feel that a reduction of controls would improve the Western position by offsetting Communist claims to be the sole promoters of peace and of reduced tensions.

7. Besides its assessment of the international political situation, the position of the British government is influenced by the pressures of commercial interests in the UK, Hong Kong, Singapore, and

Malaya and by the growing concern for the Labor Party's opposition on this issue. The UK also contends that it may be possible to weaken Chinese dependence on the Soviet Union. Certain UK trade circles may also feel that a relaxation of restrictions on Japanese trade with Communist China may serve to reduce the pressure of Japanese competition with the British in other markets. Although there is by no means general agreement that the UK would gain significant immediate economic benefits from a reduction of the controls, the British would like to test the potential of the Chinese Communist market.

8. Because of all these factors there is a dominant belief in the UK that the CHINCOM differential should be eliminated, and the UK will almost certainly push vigorously for agreement to reduce controls to existing COCOM levels. In any negotiations with the US, the UK position would be conditioned both by its own need to retain the Anglo-American alliance and by its estimate that the US has a similar, if less pronounced, need. In an effort to maintain unity, the UK might be willing to accept some sort of compromise in which it would agree to make a limited tightening of COCOM controls in return for the elimination or substantial reduction of the CHINCOM differential. However, if the US refused to consider the elimination or major reductions of the CHINCOM differential, the UK would probably gradually relax its own differential controls on trade with Communist China unless it came to believe that such action would have seriously harmful effects on allied cooperation in general.

9. *Other Western European Countries*. In general, these countries also favor a relaxation of CHINCOM controls. France in particular has supported the UK position. The pressure for relaxation stems in large part from industrial and business interests which are increasingly concerned that competitors will exclude them from markets or obtain preferred treatment by gaining the initiative. In addition there is widespread hope, despite Soviet behavior since the Summit Conference, for a broader understanding between the East and West. In the event the UK went ahead with the elimination of differential trade controls without US concurrence, most of these countries would be disposed to follow the British lead, as would Sweden, Switzerland, and Austria, which are non-CHINCOM countries.

10. *Japan*. In Japan, pressures within and without the government for relaxation of controls remain strong, although there is apparent recognition that such action would not lead to immediate large economic gains. The Japanese position is based in part on a belief that Japan cannot afford permanently to sacrifice its access to raw material sources and its natural market in Communist China, and in part on the Japanese desire for a greater independence of action in

the conduct of its foreign policy. Japan considers the CHINCOM differential particularly disadvantageous to it since, unlike the trading countries of Western Europe, Japan cannot as a practical matter transship goods to Communist China through European Bloc ports. Given Japan's over-all dependence on the US, it would not directly oppose US efforts to maintain differential controls but will continue to press for exceptions in its favor to permit an increase in its trade with Communist China. Japan has indicated that it would be willing to accept a partial modification of the existing differential between COCOM and CHINCOM controls. In the event of US refusal to agree to any modification, however, it is unlikely that the Japanese government would consider it to be either politically feasible or in the national interest to follow US leadership in maintaining a higher level of controls than that adopted by other COCOM members.

11. *Other Asian Allies*. The ROK, Nationalist China, the Philippines, Laos, Cambodia, South Vietnam, and Thailand continue to support the US on retaining controls on Communist China's trade, in part because of their own convictions and their anti-Communist foreign policy, in part because US assistance is critical to their economy and security, and in part because they see no great economic advantage to themselves in freer trade with the Communist Bloc.

12. *Neutral Countries in the Middle East and Asia*. In general these countries believe that controls on the Bloc as a whole should be reduced, and thus would favor the elimination of the CHINCOM differential.

Sino-Soviet Bloc

13. The Bloc has waged a consistent campaign against controls, most recently in the 1955 negotiations of the Foreign Ministers at Geneva, with the stated objective of securing the abolition of the entire strategic control system. A significant part of this campaign reflects the deliberate exploitation by the Bloc of the issue of controls to develop rifts among non-Communist countries and to weaken the larger unity of purpose which makes possible, among other things, the multilateral enforcement of the control system. Controls appear to be associated in the minds of Bloc leaders with the complex of Western defenses aligned against them. From their point of view, the abolition of all controls, apart from the resulting economic benefits, would also remove a psychological barrier to the fuller acceptance of Bloc countries as members of the family of nations. They would also interpret the abolition of controls as evidence of progress in their campaign to weaken Western defenses.

14. While the abolition of controls is a continuing objective of Bloc foreign policy, the Bloc is not likely to make any significant

concession for their removal. Any action short of the abolition of the entire strategic control system would probably have little or no effect on the Bloc attitude toward controls. While Bloc leaders might regard the elimination of the CHINCOM differentials as a harbinger of better things to come, they would probably not reduce the intensity of their campaign against controls. Indeed, their efforts in this direction might be increased. In the European Satellites, knowledgeable persons would interpret any net concession to any Sino-Soviet Bloc country, even in the field of trade, as a further Western acceptance of the status quo.

15. To the extent that Communist China's economic dependence on the Soviet Bloc was accelerated by Western trade controls, a potential source of friction within the Sino-Soviet Bloc was created. However, there is no evidence that any serious disharmony in intra-Bloc relationships has yet been produced as a result of trade controls. Moreover, it is unlikely that any increase in economic relations with non-Bloc countries, following any relaxation of controls, would be of sufficient magnitude to alter Peiping's orientation to Moscow or weaken the solidarity of the Sino-Soviet alliance.

III. Probable Political Effects of Elimination of the CHINCOM Differential Assuming the US Consents While Maintaining Its Own Controls

16. Except in the ROK, Taiwan, South Vietnam, the Philippines, and Thailand, the reaction to US acceptance of a reduction in controls would vary from indifference to the issue by some nations, through general approval by others, to outright welcome by those with large trading interests. It would be interpreted as an indication of US willingness, despite serious misgivings, to accommodate its policies in some degree to those of its allies. The reduction of controls with US consent would tend to submerge temporarily a broad issue between the US and other non-Communist nations which has been an irritant to our relations with our European allies. [5]

17. At the same time, US prestige would suffer in the ROK, Taiwan, South Vietnam, the Philippines, and to a lesser extent in Thailand. These governments, and even some elements in Japan, would feel that the US had proved unable to maintain a firm anti-Communist position in the face of pressure from weaker allies and that it had accommodated indirectly to Communist demands. They

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[5] The Deputy Director for Intelligence, the Joint Staff, and the Director of Intelligence, USAF, would add the following sentence to this paragraph: "On the other hand, it would be an indication to these same allies that they could in the future likewise sway US policy by their pressures and counsels." [Footnote in the source text.]

would probably be more apprehensive over future trends in US policy.

18. The Chinese Nationalists would be extremely bitter and their willingness to accept US military and economic advice would probably be further reduced. They might intensify military operations along the China coast and against shipping. Although Nationalist morale would suffer and the Nationalists would anticipate a further decline in their international position, it is unlikely that US consent to elimination of the CHINCOM differential would provide a sufficient shock to affect seriously the stability of the Nationalist government. However, the action would contribute to the present growth of Communist China's prestige which is making the maintenance of morale and loyalty on Taiwan increasingly difficult.

19. The ROK would strongly condemn any failure of the US to oppose vigorously the elimination of CHINCOM controls. It would view such failure as a further indication that US support for a militantly anti-Communist stand in Korea is unlikely. In spite of this opposition, however, the ROK probably would not take actions which would disrupt its basic ties with the US. Such a policy might further exacerbate ROK-Japanese relations. The ROK would charge the US with acceding to the "pro-Communist influence" of Japan and would fear the development of a pro-Japanese bias in US policy.

20. The action would probably be regarded in Thailand as another indication of relaxation in the US position on Communist China and would probably lead to a corresponding relaxation in Thailand's own anti-Communist posture.

21. While Chinese Communist trade with non-Communist countries would probably increase after the relaxation of controls, at least within the next couple of years such trade would be unlikely to develop in such a way as to permit the Communists to exert a significant influence on internal political developments or on the orientation of the governments. However, the freedom of action and enhanced respectability and prestige conferred upon Communist China by a lowering of controls would increase its potential for politico-economic penetration to a greater degree than probably would be indicated by the actual increase in the level of trade.

22. The largest expansion of Communist China's trade would probably be with Japan, and while not approaching prewar levels, this trade might in time become an appreciable fraction of Japan's total trade. Although Japanese prospects for maintaining an expanding economy would continue to depend more on trade with the non-Communist world than on its trade with China, this latter trade, in which capital goods would be the predominant export, might in time render some sectors of Japanese industry dependent on China as a market.

23. We believe that Sino-Japanese trade during the next few years will not in itself cause Japan to alter significantly its present orientation to the West, barring a drastic curtailment of Japanese trade opportunities in the Western world. Moreover, a relaxation of controls would to some degree undercut one of the major points of attack of those Japanese who seek a normalization of relations with the mainland, and would reduce an important irritant in Japanese-US relations. At the same time, however, the relaxation of controls would be interpreted in Japan as evidence that the US was moving closer to an accommodation with Communist China and would probably stimulate efforts both within and without the Japanese government for expanding political relations with Peiping. The increase in trade would also provide greater opportunities for various forms of Chinese Communist covert and overt activities within Japan.

24. Elimination of the CHINCOM differential with US consent and with no corresponding concessions by the Chinese Communists would tend to increase Peiping's prestige especially in Asia, would add weight to Bloc arguments that all "discrimination" in trade should cease, and would tend to strengthen the present trend to seat the Communist regime in the UN. It would also make it more difficult for the West to oppose a move to repeal the UN embargo resolution. The increase in Communist China's prestige would probably be reflected in some increase of active support among the overseas Chinese.

25. Elimination of the CHINCOM differential would not affect Peiping's foreign policy in any significant manner. It would remove a bargaining counter of the West in dealings with Communist China. Elimination of the CHINCOM differential would not, of itself, materially affect Communist China's courses of action with respect to securing control of Hong Kong or Macau, although it may make foreign occupation of these ports somewhat less advantageous from the Chinese Communist point of view.

26. Elimination of the CHINCOM differential would tend in the short run to reduce pressures for further reductions in COCOM controls. Other non-Communist governments would probably feel that the US had moved as far as presently possible. Before long, however, pressures would again develop for further reduction in Bloc controls, on the grounds that the controls do not accomplish their intended purpose, are a bar to improved relations with the Bloc, and work to the economic disadvantage of non-Communist states. The trend toward the reduction of controls would almost certainly continue in the absence of a serious crisis caused by Communist action in an area of major importance to the Western Powers.

IV. Probable Political Effects in the Event the US Had Consented to Elimination of the CHINCOM Differential But Had At the Same Time Secured Agreement to Maintain, or Tighten, COCOM Controls

27. We believe that the effects described in paragraphs 16–26 would not be affected materially if elimination of the CHINCOM differential were accompanied by an agreement to maintain COCOM controls at present levels for a limited period.

28. If the US secured a tightening of COCOM controls, however, there would be a number of differing effects which would depend in part on the degree of tightening. In those areas where the US would lose prestige in the situation discussed above, the adverse effects might be somewhat mitigated. However, the issue of trade controls would soon re-emerge as an important irritant, particularly in US–UK and US-Japanese relations. Within the space of a year strong pressures would probably develop within the participating countries to reduce the level of COCOM controls.

V. Probable Political Effects If CHINCOM Controls Were Reduced to COCOM Levels Despite the Refusal of the US to Consent to Such Reduction

29. If controls on trade with Communist China were lowered despite the refusal of the US to consent to such a reduction, there would be mixed reactions among the non-Communist states. There would be considerable disappointment in the UK, Western Europe, and Japan that the US had failed to consent, because they would feel it detracted from allied cooperation. US prestige would suffer somewhat among the strongly anti-Communist states of Asia because of the failure of the US to influence the COCOM states. There would be increased fears that the US would be unable to rally allied support in other projects to resist Communist pressures in Asia. At the same time, these governments would probably derive some satisfaction and assurance from the demonstrated determination of the US to maintain a strong position despite pressure from other nations. India, Burma, and possibly other neutral nations of Asia would probably openly condemn the US position.

91. Memorandum of a Conversation, Department of State, Washington, January 24, 1956 [1]

SUBJECT

Belgian Views on CHINCOM Controls

PARTICIPANTS

Belgian Ambassador
Mr. Carlier
The Secretary
WE—Mr. Dunham

The Belgian Ambassador recalled the many frank and useful conversations between the Secretary and the Belgian Foreign Minister, Mr. Spaak, and said that, in view of their past discussions, Mr. Spaak had asked him to call on the Secretary to convey the Belgian Government's views on the question of controls over trade with the Communist area. The Belgian Government had decided to seek our reaction first before approaching other governments.

Ambassador Silvercruys said that the problem of restrictions applying to export of non-strategic items to Communist China has recently been under review in Brussels. The situation was studied in relation to the limitations agreed upon within CHINCOM. As a result of their study of the question—while maintaining their position in regard to the necessities of keeping an embargo on all strategic materials and arms deliveries in various forms—the interdepartmental Committee which conducted the Belgian study strongly recommended that the matter be given a new look.

Under present conditions, the Ambassador continued, there is a double standard of controls—one applying to the Communist bloc in Europe, the other to Communist China. Under COCOM regulations, while all items on the atomic list and the arms and ammunitions list are entirely prohibited, a limited embargo is applied in regard to non-strategic goods. This embargo operates within the frame-work of three different lists—one list authorizing minor agreed exceptions, another list authorizing certain exceptions within agreed quotas, the third list authorizing certain deliveries under monthly control and check-up. Under the regulations set up by CHINCOM, however, all these lists are merged in a single embargo which permits only limited and agreed exceptions. Furthermore, there is a supplementary list which aims at reinforcing the restrictive measures that are applied.

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[1] Source: Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199. Secret. Drafted by Dunham.

The discrepancies between these two sets of regulations—COCOM and CHINCOM—are causing a disturbing situation, the Ambassador said. Some of the items embargoed by CHINCOM, in fact go to the Communist bloc in Europe, within the regulations of COCOM, and ultimately filter to China. Furthermore, advantage is taken by nationals of other countries whose Governments observe less scrupulously the obligations which they have assumed. While they have meticulously honored their commitments and taken effective measures to enforce the decisions agreed upon in CHINCOM, the Belgian authorities are of the opinion that present discrepancies are confusing and embarrassing and that the continuance of the CHINCOM embargo—in its present form—may result in penalizing Belgian industry and commerce.

For these reasons, Ambassador Silvercruys stated, his Government has reached the conclusion that the time has come for an up-to-date study of the operation of COCOM and the operation of CHINCOM with a view to seeking an adjustment of the respective embargoes. The China embargo would thus be adjusted within the general frame-work of the embargo against the Communist bloc in Europe, while preserving the principle that the arrangement would apply only to items, the nature, utilization and destination of which have a clearly civilian character and to quantities that are reasonable under the circumstances.

The Ambassador concluded by stating that his approach to the Secretary was made in a spirit of mutual helpfulness and with the desire to keep the closest contact with the United States on this matter as well as on other matters of mutual concern and interest. To this end his Government wished to explain this situation to the US Government and to seek its views prior to initiating consultations with the members of the Consultative Group and to having this Group entrusted formally with the matter.

The Secretary informed Ambassador Silvercruys that we have been giving fresh study to this matter and, as Mr. Eden had expressed a desire to discuss it with him during his visit to Washington, we expect to review the subject thoroughly with the British next week. Secretary Dulles went on to say that our conclusion is that it would be wiser to hold to the present controls even though it may seem unreasonable to keep the back door shut when the front door is open, allowing goods to go through the Soviet Union to Communist China. He emphasized, however, that this movement of goods involves the Communist bloc in a heavy strain on its financial and transportation capacities at a time when the Communist bloc is carrying on an economic war against us. We doubt that this is the time to ease this strain on their economies.

The Secretary remarked that we have discussed this subject with the Japanese, who are anxious to trade with China. The Japanese have a serious problem and we must endeavor to help them find means for making their economic livelihood. It may therefore prove to be in our common interest to ease these restrictions in some small degree. However, the probablities for trade are not likely to be large as the Chinese Communists do not have the financial resources to cover any considerable volume of imports from the West.

The Secretary concluded by stating that the CHINCOM list probably deserves reconsideration from time to time like the COCOM list. He feels it would be desirable for us to reach some preliminary agreement with the UK and Japanese Governments. However, the views of the Belgian Government deserve equal consideration, which they will receive. He thought, however, that he should defer giving the Ambassador any definite reply pending the conversations with Prime Minister Eden. The Secretary stated that he would welcome any specific suggestions the Belgian Government might care to give him on this subject before the meetings with Prime Minister Eden. He thought it would be useful to have specific examples for their discussions.

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92. Memorandum of Discussion at the 274th Meeting of the National Security Council, Washington, January 26, 1956[1]

[Here follow a paragraph listing the participants at the meeting and items 1 and 2.]

3. Multilateral Export Controls on Trade With Communist China (NSC 5429/5; NSC Action No. 1494; Memos for NSC from Executive Secretary, same subject, dated January 13 and 24, 1956[2])

At this point the President, noting that it was after eleven o'clock, asked what items remained on the agenda. Mr. Anderson replied that the final item, dealing with multilateral trade controls, was an issue which the President wished to have decided before the arrival of the British Prime Minister. Accordingly, Mr. Anderson suggested a short break, after which the Council would resume its meeting and consider this problem. The President, however, asked Mr. Dodge how long it would take to present his report, and Mr. Dodge replied that it could be done in five or ten minutes. Accordingly, the President decided to continue the meeting, and Mr. Dodge presented the gist of the U.S. position with respect to multilateral controls on trade with Communist China by reading to the Council the second paragraph of his memorandum of transmittal dated January 13, 1956. He also pointed out that the Joint Chiefs of Staff recommended acceptance of the position of the United States vis-à-vis the British proposed by the Council on Foreign Economic Policy.

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on January 27.

[2] Regarding the memorandum of January 13, see footnote 4, Document 88. The memorandum of January 24 transmitted the views of the Joint Chiefs of Staff on CFEP 501/8. The Joint Chiefs, in a memorandum to Secretary of Defense Wilson, January 20, expressed the view that the CFEP position paper "provides suitable guidance for negotiation." (Department of State, S/S–NSC Files: Lot 62 D 1, Communist China: Multilateral Export Controls on Trade with)

There was no disposition in the Council not to accept the position proposed by the CFEP. The President, however, said he had a remark to make. Some day, he said, he hoped that he would get a study that he had asked for repeatedly. He had listened to many long arguments as to how specific items sold to the Soviet bloc by the Western powers could have very damaging security repercussions. However, the President said, he had never seen a study of the net advantage or disadvantage to the United States of trade with the Soviet bloc countries. What he wanted to know was just what we were doing to ourselves with this system of trade controls. It seemed to him that nobody had yet provided this information to him, and here we were in this country, surrounded by a lot of surplus materials which we would like very much to sell.

Secretary Dulles inquired of Mr. Dodge whether his study and position paper had addressed itself to the problems which were faced by the British and the Japanese. Did the present report contain an estimate of how much the trade of these two countries with the Communist bloc actually meant? We in the United States are much preoccupied today with the financial and economic position of Japan and Great Britain. Would their financial and economic problems really be relieved if they had their way in this dispute and the controls on trade between them and the Soviet bloc countries were drastically reduced?

In response to Secretary Dulles' query, Secretary Weeks pointed out that the Commerce Department was frankly puzzled to explain why the United Kingdom was seeking a reduction in the controls on trade with Communist China at this precise moment in history when the British economy was running at absolute capacity and when the British economy probably could not handle additional orders from Communist China even if it got them. Moreover, China has very little that the United Kingdom really needs. It was puzzling to explain why the British were insisting upon reducing the controls on their trade with Communist China.

The President, enlarging on his earlier request for information, said that what he was really seeking was an answer to this question: If there were virtually no obstacles placed in the way of trade between the Soviet bloc countries and the free world, what would this mean, in terms of dollars and cents, first, for the United States and afterwards for its major allies? The Congress so often seemed to feel that you only hurt the Communists when you put obstacles in the way of trade between them and the free world. Perhaps, however, we were actually hurting ourselves and our allies when we create and maintain these obstacles. After all, the United States was beset with such terrific surpluses in automobiles, wheat, cotton, and the like.

Secretary Weeks replied that it was the conviction of the Department of Commerce that all the Soviet bloc really wants is to secure strategic items from the West—the very items which we should not want to let them have.

Secretary Wilson stated his belief that it was the Board of Trade which was stirring up all this commotion in England, because the manufacturing people were convinced of making fat profits over the long haul by trade with the Soviet bloc.

The President complained again that no one had yet told him what this system of trade controls was actually costing the United States and its allies. He did not want any long and elaborate study. He did want a short one-page memorandum which would cover all sides of the question.

Secretary Dulles pointed out that the most important factors in this problem of trade controls with China were psychological rather than strictly economic. Many people in the Far East have come to believe that Communist China represented the wave of the future. Seeming to grant concessions to the Chinese Communists would be bound to result in spreading this conviction and thus in building up neutralism in the Far East.

At the conclusion of the discussion, Mr. Allen Dulles read the estimate of the probable British attitude in the forthcoming negotiations.[3] . . .

The National Security Council:[4]

a. Concurred in the recommendations contained in the Negotiating Position Paper approved by the Council on Foreign Economic

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[3] Not found in Department of State files.

[4] Paragraphs a–b that follow constitute NSC Action No. 1511, approved by the President on February 1. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1956)

Policy, enclosed with the reference memorandum of January 13, 1956.

b. Noted the President's request that the Chairman, Council on Foreign Economic Policy, prepare a brief statement indicating the concrete gains or losses in dollars to the U.S. and its major allies which would result from the virtual elimination of all controls on trade with the Soviet bloc.

Note: The action in a above, as approved by the President, subsequently transmitted to the Secretary of State. The action in b above subsequently transmitted to the Chairman, Council on Foreign Economic Policy.

S. Everett Gleason

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93. Memorandum of a Conversation, Department of State, Washington, January 31, 1956, 10:30 a.m.–12:30 p.m.[1]

PARTICIPANTS

US	*UK*
The Secretary	Foreign Secretary Lloyd
Under Secretary Hoover	Ambassador Makins
Ambassador Aldrich	Sir Harold Caccia
Mr. Prochnow	Sir Leslie Rowan
Mr. MacArthur	Sir Hubert Graves
Mr. Merchant	Mr. Coulson
Mr. Robertson	
Mr. McCardle	
Mr. Bowie	
Mr. Young	
Mr. McConaughey	
Mr. Goodkind	
Mr. Cottman	

[Here follow a list of subjects discussed and the first part of the discussion on Southeast Asia and the Far East.]

[The Secretary:] The necessity for curbing Communist China has a bearing on the UN membership question and also on the trade control question, although as to the latter, the psychological factors were perhaps more important than the commercial ones. The commercial considerations were of course not without importance. As he saw it, the problem was, "How are we going to hold these detached insular positions at least until the evolution of Chinese Communist internal policy makes the regime no longer hostile and no longer to be feared?" Only by holding the strongest possible moral barriers against the Chinese Communists would it be possible to maintain a defensive position against them.

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[1] Source: Department of State, Conference Files: Lot 62 D 181, CF 648. Secret. Drafted on February 7; no other drafting information is given on the source text. The British officials accompanied Prime Minister Eden on his 3-day visit to the United States, January 30–February 2.

In response to a question from the Secretary, Mr. Hoover remarked that in connection with the trade control question, the significance of the planned Chinese Communist economic buildup should not be overlooked.

Foreign Secretary Lloyd said he wanted Sir Leslie Rowan to speak on the economic consequences of the higher level of trade controls against Communist China.

Sir Leslie said that in the British view the trade controls must relate to military objectives. Are the controls effective from this standpoint? Was it justifiable to have different control lists for two great areas which were contiguous? Do the China controls prevent Communist China from getting rubber, for example, from the Soviet Union? From a straight foreign trade standpoint, normal exports to China were important to the UK. The UK had a long record of trade with China. It was difficult to justify to British commercial interests a different embargo list for Communist China from that for the Soviet Union. He did not put primary emphasis on these points. His Government recognized the importance of holding the rim in the Western Pacific. Possibly this could be done through SEATO. From an economic standpoint the British position in Malaya and Singapore was of fundamental importance. The Malayan economy, and to a large extent the British economy, depended heavily on exports of rubber. When the Malayans saw other countries exporting rubber to Communist China, including a Commonwealth country—namely Ceylon—and doing it notwithstanding the Battle Act, it was difficult to justify a refusal to permit Malayan rubber to be exported to Communist China. It is important to keep Malaya in the Western world, to keep Malaya in the Commonwealth, and for the UK, it is important to keep Malaya in the Sterling area. If the Malayans as a result of the trade controls against Communist China should say that they will "look after themselves"—it would be a very serious matter for Britain. It is especially difficult when it is necessary to require Malaya to prohibit direct exports to Communist China.

Sir Leslie asked if in following such a policy we were not working directly contrary to the established political policy? The Malayans with a low standard of living are required to make a contribution to the effort against the Chinese Communists which is contrary to their own inclination and economic interest, and out of proportion to their resources. Sir Leslie said he should also mention Hong Kong, which was greatly dependent on trade with China. It was difficult when there was a common border between Hong Kong and Communist China. He felt that the differential controls were also placing Japan in a difficult position. He said he did not see how Japan could have any economic future unless it traded with China. He thought we would have to authorize such trade unless we were willing to continue to subsidize Japan. He knew that Japan was buying coal from the U.S. while it could not obtain coal from North China, but this high-cost U.S. coal would not enable Japan's industries to compete successfully in the world market. He said he felt that by standing pat on a high level of controls for Communist China we were working contrary to political and military objectives.

Foreign Secretary Lloyd said that the danger of disintegration of the system of multilateral controls should also be pointed out. He thought that if you do not follow a trade control policy which would keep all the member countries with you, the system of multilateral cooperation would break up and you would be worse off than if you had modified your control levels. He felt that this was not just a UK problem. The UK economic interest, while important to it, was unimportant compared to the wider aspect.

The Secretary asked about the rubber market situation in Malaya.

Sir Leslie said that the price was fairly good and considerable replanting was taking place.

The Secretary asked if the economy of Malaya seemed to be suffering.

Sir Leslie said that the economy was bound to suffer some if you closed off a possible rubber market. He said that the people of Malaya are subject to a restrictive control which is not of their own making. They are required by outside authority to conform to the CHINCOM control. He pointed out that British policy was to keep ahead of the autonomy aspirations of colonies. Imposition of export curbs on Malaya from London ran counter to this policy.

Foreign Secretary Lloyd said that contacts between Malaya and Indonesia were of interest. He had recently talked with an ex-Foreign Minister of Indonesia. Mr. Marshall[2] of the Singapore Government had also talked with him. The practical point that Indonesia was free to trade with Communist China as it wished had been made by the Indonesian and had impressed Marshall.

In response to a question from the Secretary as to whether Indonesia exported rubber to Communist China, Mr. Robertson said there had been no declared shipments. A clandestine movement of two shiploads were suspected, but the Indonesians denied it. Mr. Robertson remarked that we had information indicating that Communist China was reexporting some of the rubber it had obtained from Ceylon to Czechoslovakia. Since Czechoslovakia could obtain rubber directly from Southeast Asia, this might indicate some barter arrangement.

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[2] David Marshall, Chief Minister of Singapore.

The Secretary said there would be no conclusions regarding the question until the President and the Prime Minister talked about it. He suggested that the question be passed over until the afternoon.

Under Secretary Hoover asked Sir Leslie how much net increase he thought there would be in the trade of Communist China if the controls were reduced to the COCOM level?

Sir Leslie said he did not know. He did not feel that anyone could make a sound estimate of the increase. The issue was wider in his opinion. The effect on general relations with Malaya would be good. If people felt they were unreasonably held back in their trade relations, there would be resentment. A time might come when the UK would be unable to hold the export control line in Malaya. It would be very unfortunate if the UK should be called on to use its reserve powers in Malaya.

Mr. Hoover asked if Sir Leslie felt that the trade increase which would result from abolishing the differential would be consequential or not?

Sir Leslie felt that the trade increase would be of some consequence. He recalled that the U.K. had a long tradition of trade with China. If there was any advance in the standard of living in Mainland China—even a small increase—there would be a great increase in economic demand.

Mr. Hoover pointed out that at present there is a considerable transshipment of goods of western origin to Communist China from the Soviet bloc in Europe. He asked if a lowering of controls would result in an actual increase in the volume of trade or would there merely be a rerouting of the same goods?

Sir Leslie thought there would be some actual increase in other goods. More merchandise would come in. There would be new lines of commodities and new routes.

Mr. Hoover remarked that a change in the source would not necessarily increase the overall intake. He thought the total intake might be about the same.

Foreign Minister Lloyd pointed out, as an example of the domestic difficulty encountered by the UK, a recent layoff of workers at a truck plant in England. The factory could have sold trucks to Communist China, which would have kept the employees working full time. The men were naturally asking why export orders could not be accepted which would give them full employment.

The discussion of Far Eastern matters terminated at this point.

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94. Memorandum of a Conversation, White House, Washington, January 31, 1956, 2:40 p.m.[1]

PARTICIPANTS

US

President Eisenhower (where indicated)
Secretary Dulles
Under Secretary Hoover
Ambassador Aldrich
Mr. Murphy
Mr. Prochnow
Governor Stassen
Mr. Reuben Robertson
Admiral Radford
Mr. MacArthur
Mr. Merchant
Mr. Wilcox
Mr. Allen
Mr. Bowie
Mr. Hagerty (in part)
Mr. Goodkind
Mr. Timmons
Mr. Lister
Mr. Cottman

UK

Prime Minister Eden
Foreign Secretary Lloyd
Ambassador Makins
Sir Harold Caccia
Sir Leslie Rowan
Sir Hubert Graves
Mr. Evelyn Shuckburgh
Mr. Ian Samuel

[Here follow a list of subjects discussed and discussion of unrelated subjects.]

China Trade Controls

The President presided and Prime Minister Eden headed the British Delegation.

As soon as the President had arrived, the Secretary of State broached the problem of China trade controls. He summarized the discussion of this subject which had taken place between himself and Foreign Minister Selwyn Lloyd, together with their advisers, during the morning conference. The Secretary said that he had painted the broad United States approach to the whole China problem and on the subject of trade controls had indicated the United States belief that we tend to collapse our position if we should reduce the CHINCOM controls. He indicated that the morning discussion had also touched on the problem of rubber trade, particularly in relation to Ceylon and Malaya.

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[1] Source: Department of State, Conference Files: Lot 62 D 181, CF 648. Secret. Drafted on February 7; no other drafting information is given on the source text.

The President then broke in to say that he felt that if we did not let Japan trade with Communist China, we would be in for serious trouble. At the same time, he said, our people, especially Admiral Radford, think that any weakening on our part, either with respect to our economic pressures or our political pressures, would be extremely bad for our position in Asia. The only thing we have out there, the President said, is our reputation for standing by our word. If we begin to pull back and to raise doubts whether we will stand by our moral positions and support other peoples, the Asians, according to Admiral Radford's evaluation, will leave us like flies.

The President admitted that he did not see how to correlate this appraisal of Admiral Radford's with the Japanese problem. Likewise, in connection with rubber, if we let one country sell rubber to Communist China, it would seem that we should let others do so.

The President said he had lots of studies going forward on these problems, but as of now he did not see how to straddle them.

Prime Minister Eden said that he had two problems: There was the question of United Kingdom trade, but this trade with Communist China was not really important. On the other hand, the trade of British Colonies was more important. He pointed to the posture of Ceylon, noting that Ceylon had flouted the United Nations embargo against Communist China with respect to rubber and yet on all other counts was one of the most anti-Communist of all nations. The incongruity was deepened then when you considered Malaya, which was restrained from trading in rubber with Communist China, notwithstanding the case of Ceylon.

Prime Minister Eden said that what he proposed was to drop part of the China list now; the rest could be dropped later so long as we show now the thing is moving along.

At this point the President inquired why rubber was still considered so strategic in view of synthetic production.

Mr. Robertson, of the Defense Department, replied that the Russian synthetic industry was not sufficiently large to supply their demands.

Prime Minister Eden pointed out that there was no restriction on Russian purchases of rubber from the Free World. All I am trying to do, he said, is to get these control lists nearer together.

The President asked the Prime Minister what else he would want to take off the China trade control list besides rubber.

Prime Minister Eden alluded to a number of priority items and handed the President a list of them (this list is the one attached to the United Kingdom aide-mémoire recently delivered by Mr. Coulson to Mr. MacArthur.[2] The list sets out the items under China control which the British propose removing from such control during the first six months of a period of proposed alignment of the control lists).

Prime Minister Eden commented that all the items set out on the list he handed to the President already stood free of control to Soviet Russia.

The President asked whether the Communist Chinese did not have to pay for the things which they imported—whether they did not have to devote materials and resources to such procurement. Who does this trade help the most, the President asked.

Mr. Prochnow pointed out that the Communist Chinese were struggling to industrialize and to accomplish this change in their economy rapidly. In this connection they were desperately eager to procure many industrial items now embargoed by the differential controls. It was felt, therefore, that in the light of this need, the net gain in such trade would be greater for the Chinese Communists.

The President commented that we were trying hard to help Indochina, Burma and other countries in Southeast Asia, and it might help them economically if they were able to sell to Communist China various raw materials which he saw noted on the Prime Minister's list.

The President then said to the Prime Minister that we have a number of inter-departmental committees which study these problems, that one of them is chaired by Mr. Joseph Dodge and that he would like to have the opportunity to give Prime Minister Eden's list to Mr. Dodge and to ask him what the removal of these items from control would mean, both to the Communist Chinese as well as to the Free World. In particular the President said he would like to know what items on this possible de-control list would favor Japan. When he had the answer to these questions, we should take a look at the problem to see what we can do.

Secretary Dulles then said that there were several points of concern to him which related more to method. First, he felt that the study of the list and of these problems should take place at the staff level. Secondly, any action that might be taken toward de-control ought to be accomplished on a gradual basis, so as to avoid any indication that we have undergone a change in political attitude. In the third place, in our control system against the European Soviet bloc, we have employed various types of control, and the Secretary asked whether we might not draw from those principles in relation to China. Specifically, he inquired whether we might not use quantitative controls on some of the items.

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[2] See footnote 4, Document 88.

When the Secretary alluded to the types of control applied in COCOM, the President interjected a comment on copper wire, which he said he noted had been getting out of control. Reference was then made to rubber, and Prime Minister Eden indicated that a quantitative control system for rubber could be managed by the United Kingdom. The President commented that we could then assign a quantity to Malaya for export. Secretary Dulles commented that we were now in the position of wanting to aid Ceylon economically, but that we had the problem raised by our legislation, and it was indeed ironical that we were hampered in sending aid to Ceylon, who, as Prime Minister Eden had pointed out, was so thoroughly anti-Communist.

The President noted somewhat jocularly that his Secretary of Commerce doubtless would complain about a reduction in the international controls, since he frequently pointed out the discrimination against American businessmen which resulted from the fact that we maintained a complete embargo against Communist China while other countries permit their businessmen to conduct trade within certain limits.

The President then asked Prime Minister Eden what Malaya might expect to receive from Communist China in return for rubber. Prime Minister Eden said he did not know, but possibly it would be rice, soybeans and other food products. Malaya, he said, did not produce very much food.

Secretary Dulles jokingly commented that if Malaya were short of rice, we had a little too much of that commodity and would be glad to supply it, and at a very cheap price too. He then went on more seriously to say that Communist China was short of foreign exchange and probably would wish to barter, in which case they would probably offer food, letting their own people starve.

The President then turned to the Secretary of State and said, "This is what I want you to do; get in everyone, get in the Defense people and the others, and see what we can do to back away from this thing".

Prime Minister Eden said there was one further point that he wanted to cite to illustrate his concern. This was the case of Hong-Kong, where the population has been greatly swelled by the movement of refugees and where the whole life of the colony and its ability to feed this large population depended on foreign trade.

Secretary Dulles then asked Prime Minister Eden whether he would agree to the gradual basis for any action in reducing the trade controls. The Prime Minister replied that he did agree and that all he wanted was to get the matter moving. Secretary Dulles said it would be very important to avoid any indication that there has been a change in policy. The President said that our technical experts were studying these matters all the time and making adjustments in controls. Surely we cannot say that we made a flat decision in 1952 that cannot be altered in any detail.

Secretary Dulles again stressed that it would be important not to let the press give the impression that we had made a change of position.

Mr. Prochnow also pointed to the importance of working out the action to reduce the controls on a multilateral basis. The President echoed this thought and stressed the importance of getting the Japanese representatives into the formulation of the adjustments.

With respect to any publicity, the President then said we should make the answer that we have made no change in our general policy, but that we have turned the problem over to the experts to see if any actions beneficial to the Free World can be made within the four corners of that policy. We are then going to see what the technicians say to this.

Prime Minister Eden commented that he was old-fashioned enough to believe that trade was good for people; surely the United Kingdom had not lost through the development of trade.

The President responded that he recognized that a desperate need on the part of the Chinese Communists for particular items might make a difference in the appraisal as to where the balance of advantage might lie in a particular course of trade. He, himself, was always trying to ascertain what that balance of advantage was. He did not wish to help the Communist Chinese, but he did wish to help ourselves.[3]

[Here follows discussion of unrelated subjects.]

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[3] Another memorandum of this conversation, drafted by Goodkind, is in Department of State, Central Files, 493.009/2–156.

95. Memorandum From the Chairman of the Council on Foreign Economic Policy (Dodge) to the Staff Assistant to the President (Goodpaster)[1]

Washington, January 31, 1956.

SUBJECT

Penalties on U.S. and Other Foreign Countries from East-West Trade Controls

1. At the NSC meeting of 29 January 1956,[2] the President requested the Chairman, Council on Foreign Economic Policy, to provide him with a brief statement indicating the gains or losses in dollars to the United States and its major allies that would result from the virtual removal of all controls on trade with the Bloc.

2. Pursuant to the above, there is attached hereto a brief statement entitled "Gains in Trade, Expressed in Dollars, Which Might Follow From The Virtual Elimination of All Controls on Trade With the Bloc." This statement has been cleared with Mr. Herbert V. Prochnow, for the Department of State, Mr. Gordon Gray, for the Department of Defense, Mr. Harold C. McClellan, for the Department of Commerce, Admiral DeLany, for the International Cooperation Administration, and Mr. Robert Amory for the Central Intelligence Agency.

3. More detailed comments on the problem are attached to the statement as Annex A.[3] These detailed comments are an elaboration on the points made in the brief statement and have been approved by State, ICA and CIA but not by Defense and Commerce. The short time available to prepare this paper has not permitted a resolution of reservations by Defense and Commerce to Annex A.

4. Admiral DeLany has asked me to note that because of the security objective expressed in the Battle Act, there is a question as to whether a reduction of the Battle Act list to the full extent indicated in the attached statement would not violate Congressional intent.

Joseph M. Dodge[4]

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[1] Source: Eisenhower Library, Special Assistant for National Security Affairs Records. Secret.

[2] Apparent reference to the meeting of January 26. See Document 91.

[3] Not printed.

[4] Printed from a copy that bears this typed signature.

[Enclosure]

GAINS IN TRADE, EXPRESSED IN DOLLARS, WHICH MIGHT FOLLOW FROM THE VIRTUAL ELIMINATION OF ALL CONTROLS ON TRADE WITH THE BLOC [5]

The elimination of trade controls against the Soviet Bloc for all commodities, except arms and atomic energy materials, might result in an annual increase of Free World exports to the Bloc of as much as $350 million. About $150 million of this increase would result from the relaxation of the differential controls against China. However, if the United States maintained its unilateral controls, the increase in trade attributable solely to the differential China controls would be in the neighborhood of $60 million assuming there were no significant extension of Western long-term credits.

The increased trade resulting from the elimination of virtually all controls, though amounting to about 15 percent of the present level of Free World exports to the Soviet Bloc, would be very small in relation to total Free World trade. *Such an increase is too small to be of significant economic benefit to the Free World as a whole; although to a number of business firms, particularly in Japan, this improvement in trade would be important.*

Since the imposition of trade controls, the Soviet Bloc has continued to develop a rapidly expanding capability to export many commodities in categories similar to those being controlled by the Free World. While Bloc imports of industrial equipment, chemicals and petroleum products remained relatively constant during 1953–56, Bloc exports of such goods have increased very substantially during the same period from a low initial level. Although Bloc trade with the West is relatively small, the Bloc has a rich natural resource base comparable to that of other major industrial states and it is now supplying some of the industrial requirements of Western countries.

The elimination of virtually all trade controls would probably lead to some increase in total Bloc purchases, particularly of certain metals, ships, electronics and other complex industrial equipment. Bloc demand for such complex industrial equipment would be confined to relatively few categories since most of it is not included in the relatively narrow range now effectively embargoed by the West.

The relative self-sufficiency of the Bloc's economy is the result of years of Soviet policy directed toward autarky stimulated to some extent by over five years of Western trade controls. If the Bloc chose to revise this policy, it could generate and pay for an increase in imports from the West of as much as one billion dollars annually without adverse and possibly with beneficial effect on the Bloc's other long-range economic plans. Such a change in policy could be adopted by the Bloc within the pattern of Free World trade controls. However, it is not considered likely that the Bloc would in fact change its policy of present limited trade with the Free World even if virtually all trade controls were eliminated, except possibly as it might find it desirable to do so for political reasons.[6]

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[5] Secret. Prepared by the CIA and forwarded to Dodge on January 31, under cover of a memorandum from Amory. (Eisenhower Library, CFEP Records)

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[6] On February 13, Gleason forwarded this memorandum and the enclosure to the NSC. (Department of State, S/S–NSC Files: Lot 62 D 1, Communist China: Multilateral Export Controls on Trade with)

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96. Editorial Note

In a memorandum to Dodge, February 10, Hoover discussed the recent talks between Eisenhower and Eden regarding strategic trade controls. He explained that during those talks the President informed the Prime Minister that he would submit the list of items that the British had proposed for decontrol to Dodge as Chairman of the Council on Foreign Economic Policy. "The President indicated," Hoover noted, "that the purpose of this reference would be for the U.S. experts to examine the British proposals, and their implications, as well as other aspects of the problem, and make recommendations as to whether adjustments to the net benefit of the Free World could be made in the embargo lists within the continued application of the basic policy to maintain substantial differential controls through the multilateral control organization." (Department of State, Central Files, 493.009/2–1056) The British list of items for decontrol was identical to the list presented in the aide-mémoire of January 3.

On February 13, Dodge sent a memorandum to DeLany, instructing him as Chairman of the Economic Defense Advisory Committee to initiate a review of the British list for consideration by the CFEP. He requested that the review be completed by March 1. "Specifically," Dodge explained, "the review by EDAC should analyze and appraise the items on the British differential list to determine:

"(a) Items of greatest and least advantage to the military potential of Communist China.

"(b) Items the export of which would be of particular advantage to the other Free World Governments.

"(c) Items the export of which would be of substantial immediate or potential commercial benefit to Japan." (Eisenhower Library, CFEP Records)

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97. Editorial Note

On February 15, the Senate Permanent Investigations Subcommittee opened public hearings on the revision of the Battle Act and International Lists implemented in August 1954. Circular telegram 571, February 17, sent to 14 diplomatic posts, explained the background of the hearings. "Subcommittee charge," it noted in part, "is reported to be that 1954 revision has permitted shipment strategic commodities to European Soviet bloc and that decisions within U.S. executive branch which resulted in 1954 deletions were taken contrary to U.S. experts' evaluation of strategic importance individual items." The subcommittee, which was chaired by Senator John L. McClellan (D.–Arkansas), included the following Senators: Joseph R. McCarthy (R.–Wisconsin), Henry M. Jackson (D.–Washington), Stuart Symington (D.–Mississippi), Karl E. Mundt, (R.–South Dakota), and George H. Bender (R.–Ohio). The hearings, held between February 15 and March 29, are printed in U.S. Congress, Senate, Committee on Government Operations, *East-West Trade: Hearings before the Permanent Subcommittee on Investigations of the Committee on Government Operations* (Washington, Government Printing Office, 1956).

98. Memorandum of a Conversation, Department of State, Washington, February 28, 1956 [1]

SUBJECT

China Trade Controls

PARTICIPANTS

Sir Roger Makins, British Ambassador
The Secretary
Francis Wilcox, Assistant Secretary, IO
Outerbridge Horsey, Director, BNA

The Ambassador referred to the discussion of this subject during Prime Minister Eden's visit and, a good deal of time having passed, asked when the British could hope to have our comments on the list which they had given us. Sir Roger also asked if we would have any objection to their giving the same list to the French.

Sir Roger said that there was a good deal of pressure to fix a date for the next meeting for the Consultative Group in Paris.

The Secretary said that he thought there was no reason for delaying the fulfillment of the commitments made during the Eden visit and there was no intention on our part in engaging in delaying tactics. However, the issue was a complex one and he would in any case see that word was got to the British as soon as possible.

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[1] Source: Department of State, Central Files, 493.009/2–2856. Confidential. Drafted by Horsey.

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99. Memorandum From the Chairman of the Council on Foreign Economic Policy (Dodge) to the Deputy Under Secretary of State for Economic Affairs (Prochnow) [1]

Washington, February 29, 1956.

SUBJECT

Modification of East-West Trade Controls

You have asked how soon a meeting of the Consultative Group might be called to consider the subject of modifying CHINCOM

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[1] Source: Department of State, Central Files, 460.509/2–2956. Secret.

Trade Controls, as proposed by the British and discussed at the time of Prime Minister Eden's visit.

Acting under the terms of the memorandums of discussion, an intensive study has been made of the items on the differential list submitted by the British, to determine the implications, at home and abroad, of any changes in the control status of each of these items. This determination is fundamental to any proper consideration of possible changes and subsequent Group negotiations with respect to them. The report is due March 1st. Based on this analysis and appraisal, possible modifications then will be considered, item by item.

Under any circumstances, it would be essential that any positions taken by the United States receive adequate and careful consideration. But, unfortunately, in this instance, there is serious complication in addition to the usual problem of determining the facts and an internally agreed U.S. position.

Since the general announcement that such a modification would be considered, it has been under almost continuous public criticism. In the Congress there has been an attack on the general revision of controls of exports to the Soviet Bloc put into effect on August 16, 1954.

Recent evidence can be found in a speech by Senator McClellan on the floor of the Senate, Thursday, February 23, 1956, reported in the *Congressional Record* of that date at page 2771. He spoke on East-West Trade, and criticized the relaxation of trade controls that occurred in August 1954, based on executive and public hearings of the Senate Permanent Investigating Subcommittee, of which he is Chairman. The Chairman of the Armed Services Committee[2] and other members of that Committee participated in the discussion. The Committee investigation is continuing.

For this reason, and at this time, any position the U.S. may take on the proposal must receive especially careful consideration.

I believe that too hasty or ill-considered action could be used to embarrass the Government program of assistance to other nations, not yet approved by the Congress. And, under these circumstances, I further believe the U.S. position will have to be that we can agree to a date for a Consultative Group meeting only when every aspect of the U.S. position has been developed and considered in terms of the need for a complete and successful public and Congressional justification.[3]

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[2] Richard B. Russell (D.–Georgia).

Joseph M. Dodge

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[3] On February 29, Prochnow forwarded a copy of this letter to Dulles with a brief covering memorandum. (Department of State, Central Files, 493.009/2–2956)

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100. Memorandum From the Under Secretary of State (Hoover) to the Secretary of State[1]

Washington, March 1, 1956.

I understand that Selwyn Lloyd will undoubtedly question you in Karachi about when we will be prepared to negotiate on CHINCOM trade controls.[2]

Mr. Prochnow and I have discussed the matter with Mr. Dodge and we have come to the following conclusions:

1. The staff work and position papers will probably be ready to start negotiations by April 15.
2. The McClellan Committee has raised so much difficulty and public furor about our general COCOM and CHINCOM practices in the past, that it may not be possible from the point of view of public policy to undertake a further revision by the middle of April without serious political repercussions. The White House has requested Governor Stassen to testify on the COCOM negotiations of 1954 early next week. The outcome of his testimony will determine whether we can undertake negotiations with the British on CHINCOM without considerable jeopardy to the FY 1957 Foreign Aid Program.

H.

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[1] Source: Department of State, Central Files, 493.009/3–156. Confidential.

[2] Reference is to the Second Meeting of the Council of the Southeast Asia Treaty Organization, scheduled to meet at Karachi, March 6–8.

101. Memorandum of a Conversation, Department of State, Washington, March 7, 1956 [1]

SUBJECT

China Trade Controls

PARTICIPANTS

Sir Hubert Graves, Minister, British Embassy
Mr. J. A. McCall-Judson, First Secretary, British Embassy
Outerbridge Horsey, Director, BNA

Sir Hubert called at his request and said that his Embassy was under persistent instructions from London to seek information from the Department as to when we would be able to move forward on the commitment which the President had made during Prime Minister Eden's visit, to review the controls "now and periodically", to use the words of the communiqué. [2]

Sir Hubert said that it was six weeks since the word "now" had been used. Ministers were being pressed in the House, where a number of questions on this subject would have to be answered during the next week. Illustrating this pressure, Sir Hubert said that the President of the Board of Trade had been obliged to say the other day in the House that he was giving consideration to publishing the China differential list. (He did not raise the point which Sir Roger raised with the Secretary on February 28, as to our opinion on their desire to give the French Government a copy of the list which they had given us before the Eden talks.) Sir Hubert said that the British Government was also under a great deal of pressure at all the capitals of the CG countries. There was particular pressure from the French, Japanese and Danes. He asked me if I could tell him how the review of the Dodge Council was progressing and when we thought we would be ready to raise the subject in the CG.

I reviewed with Sir Hubert various offices in the Department concerned with this subject and said that, while EUR had a natural interest in it because of its effect on our relations with the U.K., I understood that the Secretary had assigned responsibility for handling it to Mr. Prochnow, both as regards action within the United States Government and action with other governments. I said that, although I knew of certain steps being taken in consideration of this very complex matter, I was not sufficiently familiar with them to give him authoritative information. I said that I was afraid that, under these circumstances, anything which I said would confuse rather than clarify the issue.

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[1] Source: Department of State, Central Files, 493.009/3–756. Confidential. Drafted by Horsey.

[2] Reference is to the joint statement of President Eisenhower and Prime Minister Eden, issued on February 1; for text, see Department of State *Bulletin*, February 13, 1956, pp. 232–234.

Sir Hubert said he understood this but said the Ambassador had suggested he come to see me since I had been present when his Ambassador saw the Secretary on February 28 and had been assured by the Secretary that he would see that word would be got to the British Embassy.

I said that I would be glad to make arrangements for him to see Mr. Prochnow or Mr. Kalijarvi. He appreciated this and asked that such an appointment be made as soon as possible.[3]

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[3] On March 9, Graves met with Kalijarvi and again raised this matter. During the conversation, Kalijarvi remarked: "The prospects now are that within the reasonably near future the United States should be able to reach an agreement on its position and that a CG meeting might possibly be held in the middle of April." (Memorandum of conversation by Kalijarvi; Department of State, Central Files, 493.009/3–756)

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102. Circular Telegram From the Department of State to Certain Diplomatic Missions[1]

Washington, March 9, 1956—8:25 p.m.

626. Excon. Circulars 539[2] and 548.[3] Department aware differing interpretations voiced abroad of conclusions Eden–Eisenhower talks. Department particularly concerned lest erroneous impression spread that US policy toward trade controls has changed.

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[1] Source: Department of State, Central Files, 460.509/3–956. Confidential. Drafted by Goodkind and Jerry Knoll of ECD. Sent to Bonn, Brussels, Copenhagen, The Hague, Lisbon, London, Ottawa, Paris (including USRO/ST), Rome, and Tokyo. Also pouched to Ankara, Athens, Bern, Geneva (for Johnson), Hong Kong, Luxembourg, Oslo, Stockholm, and Vienna.

[2] This circular telegram of February 9, sent to the diplomatic posts in each of the Participating Countries other than the United Kingdom, concerned the Eisenhower–Eden talks on trade controls. It provided the Embassies with information about those discussions for transmittal to the respective PC's, in order "to dispel any impression that a change in the principle of preserving a substantial and effective China differential will be made as result of talks, and at same time [to] let Participating Country governments know U.S. willing assess limited special needs individual countries for some CHINCOM flexibility." (*Ibid.*, 611.41/2–956)

[3] This circular telegram of February 10, sent to Paris and repeated to 18 diplomatic missions, authorized the U.S. Delegation to COCOM to notify the COCOM chairman and all interested delegations of the substance of circular 539. (*Ibid.*, 611.41/1–2056)

While US has agreed to review China embargo list to determine what adjustments can be made which would be beneficial to Free World and without balance advantage to Chinese Communists, this agreement does not reflect any change in basic US policy for maintenance strong system of controls including differential toward Communist China.

US appreciates fact that uncertainty or confusion concerning national trade control policies of member governments may have resulted during recent months in lessening the vigor of COCOM/CHINCOM operations and in reducing the degree of international cooperation previously exhibited in that forum. US continues to feel strongly that there is sound strategic and political basis for maintenance of security trade controls applicable to Soviet bloc (including a substantial differential toward Communist China) and that these controls can be administered effectively only by strong multilateral organization such as CG/COCOM/CHINCOM structure. US would hope that some revitalization and strengthening of this organization can be achieved as result China trade control review.

Above may be used as background should occasion arise for further discussion US policy trade control matters.

Hoover

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103. Memorandum From the Assistant Secretary of State for Far Eastern Affairs (Robertson) to the Secretary of State[1]

Washington, March 30, 1956.

SUBJECT

Increasing Opposition by CG Countries to U.S. Position on CHINCOM Trade Controls

This is to report that opposition by a number of the countries in the Consultative Group to the U.S. stand on maintaining high-level China trade controls has reached alarming proportions. Communications from London and Paris confirm that the British and French will lead the drive in the CG to reduce CHINCOM controls to the COCOM level. Both governments have recently given repeated evidence of their irritation because of our "delay" in fixing a date for the CG meeting.

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[1] Source: Department of State, Central Files, 493.009/3–3056. Secret. Drafted by Robert W. Tucker of CA and Charles L. Hodge, Officer in Charge of Economic Affairs in CA; cleared by Howard Jones.

Despite earlier hopes that the Mollet government would take a more moderate stand, the French have now indicated they are determined to equalize CHINCOM–COCOM controls at the lower level. French intransigence is further indicated by 1) the decision to ship a minimum of 14,300 tons of iron, steel and tin plates to Communist China and possibly 6,000 tons more; 2) possibly shipping $8 or $9 million of other China embargo goods; 3) shipping trucks to North Vietnam; and 4) considering the placement of a trade representative in Peiping and allowing a Chinese Communist trade representative in Paris.

Since February the British Embassy has asked at least four times for U.S. action on discussing the CHINCOM issue and setting a date for the CG meeting. On March 27, the U.K. delegate in CHINCOM delivered a particularly bitter rebuttal to U.S. objections to shipment of certain British laboratory chemicals to China stating that the China controls were devised to meet the temporary condition of a local hot war and were not intended as long-term measures to inhibit China's industrial and scientific advance. The Danish, Japanese, French and German delegations promptly agreed that the present CHINCOM controls exceed their original objective. The Danish delegate plead for a prompt discussion of China control policy in the CG.[2] On March 23 the British Government agreed to export 100 agricultural tractors to Communist China, having pared down an original request for the export of 1,700 tractors, and cited this as an example of heavy pressure in Parliament, press and commercial circles for relaxation of controls.

The latest available information indicates that the Netherlands and Portugal would also favor reduction of CHINCOM controls to the COCOM level and that Belgium, Canada, Italy and Norway favor reduction although not necessarily to the COCOM level. Of the 15 participating countries in the CG, it seems that only Greece and Turkey will likely provide strong support for the U.S. position favoring maintenance of a significant China differential (unless we can satisfy the Japanese with moderate concessions) but unfortunately these two nations have a comparatively small voice in CHINCOM/CG affairs.

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[2] A summary of the CHINCOM meeting of March 27 was transmitted to the Department in Polto 1698 from Paris, March 27. (*Ibid.*, 493.419/3–2756)

104. Memorandum From the Under Secretary of State (Hoover) to the Secretary of State[1]

Washington, April 2, 1956.

SUBJECT

East-West Trade Controversy

The hearings of the McClellan Permanent Subcommittee on Investigation into East-West trade in strategic materials have brought out the following basic attitudes:

1. The majority attitude of the Committee (McClellan, McCarthy, Jackson (Washington) and Symington) has been expressed by them as follows:

(a) The US public should know that our allies are shipping strategic war materials to the Soviet bloc.

(b) In the 1954 negotiations the administration allowed our allies to remove many strategic items from the control lists because the US did not apply enough pressure and bargain hard enough.

(c) The administration is trying to cover these facts in a shroud of secrecy and is refusing to make public classified information, documents and testimony.

(d) Unless secrecy is abandoned, and all the facts are made public, the members will actively oppose foreign aid on the grounds that it is being used to build up our allies who, in turn, are building up the Russian war potential.

(e) The Committee majority is actuated, in individual degrees, by reasons of election year politics, misunderstanding of the facts, or anti-foreign bias.

2. The minority attitude (Mundt, Bender) while helpful has not been particularly effective.

3. The facts of the case are:

(a) All possible information has been made available and the Executive Branch has endeavored to cooperate completely with the Committee.

(b) The only information (apart from privileged internal working papers) which has not been made public, but which has been offered to the Committee on a classified basis, are the 1952 and 1954 international lists of items which are actually banned for shipment to Russia or the satellites, and an explanation of the changes. These lists are in most particulars identical with the Battle Act lists, which have been furnished over a period of several years to six different committees of Congress. The Subcommittee has also been given the classified report on the 1954 negotiations previously sent to the six committees by Mr. Stassen. (No inquiry has been made into the Chinese Communist control lists. This may come later.)

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[1] Source: Department of State, Central Files, 460.509/4–256. Confidential. Copies sent to Prochnow, McCardle, and Hill.

(c) The Committee has been told repeatedly that the reason we cannot make the control list public is that, in order to get a voluntary system of strategic controls in the first place, we had to agree with 14 of our allies that we would keep it on a classified basis. Publication of the list would make it difficult for some of the cooperating governments to continue to resist internal and external pressures for further reductions.

(d) Enforcement against direct or indirect shipment of items on the control list appears to be satisfactory.

(e) Information on approvals of quantitative control and watch list items is included in confidential reports by participating countries to the Paris committee. Information on shipments of items which are not controlled is readily available through published figures of the Bureau of Foreign and Domestic Commerce, Department of Commerce.

(f) Many items deleted from the control list or down-rated were those of which the Soviets had an exportable surplus. An example is petroleum[2] and its products, of which Russia and the European satellites exported $100 million last year.

(g) Exports to the bloc of downgraded items have been small, except in one item—copper wire. This item was deleted in 1954, on the assurance of the UK that shipments would not be consequential. The 5 other categories of copper were retained on the list. Since August 1954, the license approvals by Western European countries for copper wire exports to the Soviet bloc have amounted to approximately 125,000 tons, valued at approximately $125 million; actual shipments have been somewhat less. (This could be a serious situation, and we are endeavoring to have it put back on the list, although the UK can be expected to continue to resist strenuously.)

4. Internal and external pressures on many of our allies to trade with the bloc are very great. In many cases trade patterns have been built up over a period of a century or more.

5. Our principal allies in Europe, who carry on the bulk of the trade with the bloc, no longer receive economic aid from the US.

H.

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[2] Only crude oil, fuel oil and diesel oil were removed from embargo; they are on the watch list. [Footnote in the source text.]

105. Minutes of the 40th Meeting of the Council on Foreign Economic Policy, Executive Office Building, Washington, April 3, 1956 [1]

ATTENDANCE

Prochnow, Kalijarvi, Knoll, Burgess, Overby, McClellan, Smith, Hockersmith, Morse, Gray, Nichols, Wormser, Amory, Williams, Cooley, Winant, DeLany, Hale, McCall, Hutchinson, Davis, Lay, Johnson, Hauge, Dodge, Rand, Cullen

Draft Minutes of the 39th Meeting, March 16, 1956, were approved as corrected.

AGENDA SUBJECTS

CFEP 501—East-West Trade.

1. The Chairman stated that the President, on January 31, 1956, requested the Council on Foreign Economic Policy to review a list of items on the ChinCom list submitted for decontrol by the British Prime Minister and recommend adjustments that could be made in the ChinCom list to the net benefit of the Free World. As a first step, the Economic Defense Advisory Committee was requested to appraise the items on the ChinCom list to determine:

a. Items of greatest and least advantage to the military potential of China;
b. Items the export of which would be of particular immediate or relatively immediate advantage to Free World governments other than Japan and the United States; and
c. Items the export of which would be of particular immediate or relatively immediate advantage to Japan.

2. The EDAC report dated February 29, 1956 was transmitted to Council members on March 2, 1956 as CFEP 501/info. [2] This *agreed* report listed 34 items from the ChinCom list of 297 as being of least advantage to the military potential of Communist China. Of these 34 items, 7 were proposed for decontrol by the British and 10 by the Japanese. (Six of the items were proposed for decontrol by both countries.)

3. On March 2, 1956, EDAC was requested to classify the items on the ChinCom list into three groups in the ascending order of strategic and economic importance to Communist China and recommend a U.S. negotiating position for this subject.

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[1] Source: Eisenhower Library, CFEP Records. Secret.

[2] Not printed. (*Ibid.*)

4. The report and recommendations submitted by EDAC, distributed as CFEP 501/9 and CFEP 501/10 dated March 22 and March 28 respectively, were considered by the Council.[3]

5. There were substantial disagreements about the recommended U.S. negotiating position and an extended discussion principally revolved around:

a. The extent of possible U.S. concessions for removal from the ChinCom list.

b. The need for quid pro quos evidencing a maximum net benefit to the Free World sufficient to justify any agreed concessions.

6. The Council consideration resulted in a disagreement by Defense and Treasury to an otherwise agreed negotiating position. This disagreement was principally related to (a) above.

7. It was the consensus of the Council (except for the Departments of Defense and Treasury) that the following U.S. negotiating position, negotiating objectives, and negotiating procedures should be adopted in the forthcoming bilateral and Consultative Group discussions of possible revisions of multilateral export controls against Communist China:

a. *U.S. Position*
The United States is prepared:

(1) To negotiate as an area of concession, and to the extent it becomes necessary, a downrating from the ChinCom embargo list to a surveillance list or decontrol, of the 81 items in List A and List B of Annex D[4] (CFEP 501/9) and natural rubber (with a special bilateral agreement on reporting with the U.K.); and to agree to a special bilateral exceptions arrangement with Japan on wooden fishing vessels.

(2) In the negotiations, emphasis will be on granting a minimum of concessions and on achieving a maximum of support for and agreement to the stated U.S. negotiating objectives.

(3) To review ChinCom controls whenever a change in the international situation occurs which in the view of any PC is deemed sufficient to warrant a review either for further relaxation or strengthening of controls to Communist China.

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[3] Neither printed. (*Ibid.*)

[4] These lists included items on the Consolidated China Special List and those items on the COCOM list which were proposed by the United Kingdom and Japan for removal from China differential controls. List A contained items judged by the Department of Defense and CIA to have the least strategic and economic significance for Communist China. List B contained items judged by Defense and CIA to have average strategic and economic significance to Communist China. Another list, List C, contained items judged by Defense to be of the greatest economic and strategic significance to Communist China.

b. *U.S. Negotiating Objectives*

The United States should seek maximum agreement to and support for the following objectives:

(1) With respect to the China differential controls:

(a) To retain substantial control in terms of the coverage of listed items;
(b) To continue to apply effective bunkering and voyage licensing controls to the differential area;
(c) To tighten the ChinCom exceptions procedures and practices (including implementation of procedures already agreed);
(d) To achieve a clearer and firmer undertaking through CoCom to deny or strictly control to Eastern Europe items which are being obtained by Eastern Europe from the Free World and then diverted to Communist China.

(2) With respect to CoCom controls:

(a) To oppose any relaxation of CoCom controls;
(b) To achieve as a matter of high priority embargo of copper wire;
(c) To obtain acceptance of improved controls over the sale, transfer and repair of merchant vessels;
(d) To achieve improved quantitative control (specific proposals would be prepared in advance of the CG meeting);
(e) To seek improvement of reporting procedures and possible establishment of "peril points" or other similar techniques for IL-III items.

(3) With respect to general CG/CoCom/ChinCom considerations:

(a) To work toward a closer coordination of CG and NATO on information related to and on objectives towards the Soviet Bloc.

(4) The extent to which U.S. negotiators are authorized to indicate tentative agreement in bilateral negotiations will depend upon the extent to which the PC's concerned accept and undertake to support in the CG the U.S. objectives stated above. Agreement of a PC not to exceed the downratings or deletions which the U.S. negotiators are authorized is alone not sufficient to warrant U.S. acceptance of the arrangements. These judgments will be made initially by the negotiators, subject to interagency review in Washington when the results of the several bilateral negotiations become available.

c. *Negotiating Procedures*

Full bilateral discussions should be undertaken by the United States with the various participating countries. A bilateral with Japan should occur first and be followed by a bilateral with the United Kingdom. Bilaterals with the other participating countries should promptly follow to assure a fuller understanding by them of the United States view, to gain support for that view and to avoid increasing present resentment regarding extensive U.S.–U.K. discussions. The results of individual bilaterals should be reported promptly. Before a final U.S. position is established for presentation to the Consultative Group, full account should be taken of such bilaterals as have been completed.

8. The Departments of Defense and Treasury recommend substitution of the following U.S. position for the U.S. position in paragraph 7a above (retaining subparagraphs 7b and 7c):

a. As an initial step, President Eisenhower should communicate the substance of the U.S. position to Prime Minister Eden.

b. The U.S. is prepared to offer, as an area of concession, the removal from the ChinCom embargo list of the 37 items in the A list of Annex D (CFEP 501/9), plus rubber, wooden fishing vessels, and seven B List items, five of which are of special interest to Japan.

c. If, as a result of these concessions, it does not appear that the U.S. position can be maintained, then the U.S. should move to a consideration of items on the B list, but only if the U.K. and Japan commit themselves to strongly support the U.S. in the CG on a proposal to gradually narrow the China differential, by the process of transferring some items from the ChinCom list to the CoCom list, and by dropping others entirely. In the initial stages of the process, only B list items would be considered. Certain items, such as copper wire and ships, should be restored to the effective CoCom control at once by virtue of their special importance. It should be agreed that the ultimate result would be a unified control program, substantially narrower in scope than the present ChinCom controls, but substantially broader than the present CoCom controls, the entire control to be effectively implemented.

9. In the Council discussion, the following factors were emphasized:

a. The importance of maintaining the multilateral control system.

b. Similar but adverse internal pressures in the United States parallel the internal political pressures of CG countries urging relaxation of ChinCom controls.

c. Any relaxation of ChinCom controls without adequate quid pro quo undoubtedly would adversely affect Congressional consideration of the Mutual Security program.

d. The need for a not too limited area of negotiation.

e. Every consideration should be given to providing justifiable concessions to the Japanese.

f. It would be inadvisable to involve the result of the Geneva talks between the U.S. and Communist China with ChinCom negotiations.

g. The difficulty of administration of multilateral anti-frustration controls involving Soviet Bloc indigenous production would not warrant concessions by the U.S.

10. The Council agreed that the consensus set forth in paragraph 7 and the position of the Departments of Defense and Treasury set

forth in paragraph 8 be transmitted to the National Security Council for its consideration.[5]

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[5] On April 6, Cullen transmitted to Lay CFEP 501/9 and CFEP 501/10 as well as a copy of the minutes of the CFEP meeting of April 3, under cover of a memorandum. Lay then transmitted these documents to the NSC on April 9, under cover of his own memorandum. (Department of State, S/S–NSC Files: Lot 62 D 1, Communist China: Multilateral Export Controls on Trade with)

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106. Memorandum of Discussion at the 281st Meeting of the National Security Council, Washington, April 5, 1956[1]

[Here follow a paragraph listing the participants at the meeting and discussion of agenda items 1–4.]

5. International Trade, Including Trade Between the Free World and the Soviet Bloc

Apropos of Indonesian purchases of rice from Burma and Thailand, the President said he wished to make a comment, part of which would be familiar to the National Security Council. He went on to point out that the United States takes the position that it will not trade with the Soviet bloc. Having taken such position, we proceed to dispose of our agricultural surpluses to countries which have normally been the markets for countries friendly to the United States. This course of action worsens the situation.

Secretary Dulles pointed out to the President that we did not supply a country like Indonesia with our surplus rice until Indonesia had already purchased its "normal quota" from traditional suppliers like Burma. The President added that in any case our disposal of agricultural surpluses should not be permitted to trouble the normal trade relationships between countries friendly to us. Secretary Dulles then referred briefly to the difficulties encountered with the Congress in the matter of our large surplus food products, and also pointed out that the Soviets bought the surplus products of underdeveloped countries primarily for political reasons.

At this point the President said he wanted to tell the members of the Council about a recent visit of Bernard Baruch.[2] Baruch had come to see him, said the President, primarily to challenge us on the whole program for the development of our missiles. When the President had completely satisfied Baruch as to the extent of the Administration's program, Baruch had suddenly switched the conversation to this matter of world trade. He had expressed the opinion that the world would be much better off if the United States completely removed all of its existing barriers to trade. The President said that this was such a complete reversal of Baruch's previous views on this subject that he had been absolutely astonished. Nevertheless, continued the President, the National Security Council was well aware of his own opinion that, in the matter of setting up so many barriers to the free flow of trade, the United States was in point of fact cutting off its nose to spite its face.

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on April 6.

[2] Former U.S. Representative on the U.N. Atomic Energy Commission, 1946.

When the President had finished, Secretary Dulles said that the President's remarks brought to mind a matter which he had spoken about in the Council some weeks ago. He referred to his suggestion at that time that the United States might cause a great deal of difficulty to the Soviet Union if it were suddenly to offer to Czechoslovakia a large amount of surplus U.S. agricultural commodities. So far as he knew, continued Secretary Dulles, nothing had ever come of this suggestion, and he presumed that it was buried somewhere in the depths of the government bureaucracy.

The President said that Secretary Dulles' complaint reminded him of the irritation of General Persons, who had unburdened himself to the President very recently. General Persons' conviction was that while Administration officials down to the Assistant Secretary level were loyal and reliable, there were below this level a number of career officers who defeat and frustrate the policy recommendations of their superiors. These people were often in quasi executive positions, and General Persons said he had a list of the offenders which he would be discussing with the heads of the Executive departments and agencies.

Reverting to the previous subject, the President then qualified his statement urging the removal by the United States of all trade restrictions. He admitted that not all restrictions could be removed, but the United States should nevertheless do everything that it could, for example, to encourage Japanese trade with Japan's neighbors, including Communist China.

Secretary Wilson said that of course in Defense we were "a little emotional" on this matter of East-West trade. He had come, he said, to feel that there were only two really tenable positions to take on U.S. trade with the Soviet bloc. Either we should not trade with the Soviet bloc at all, or else we should adopt a fairly liberal trade policy with the bloc. The middle ground of juggling lists of controlled items was very difficult. Secretary Wilson added that of course he meant that we should continue to embargo the sale of arms and armaments to the Communist nations. What particularly worried him at the moment was the amount of copper and of electronics machinery which was reaching the Soviet bloc from the West.

The President wondered whether it would not be useful to decontrol everything except perhaps such vital commodities as copper and a few others. Admiral Radford pointed out that at the present time the U.S. list of controlled items for trade with the Soviet bloc contained nothing but strategic materials. For example, all non-strategic goods were flowing between Japan and her neighbors. Our pressures on Japan were not restricting the exchange of consumers goods.

Secretary Wilson reiterated that he was "burned up" by the trade our allies were conducting with the Soviet bloc in copper and electronics machinery. He advocated that the United States should concentrate its efforts on preventing such sales to the Communist nations.

The President then turned to Mr. Allen Dulles and inquired whether the Central Intelligence Agency kept itself regularly informed on the flow of trade throughout the world. Mr. Dulles replied that the CIA did keep careful track of the trade of the Soviet bloc, but that responsibility for tracing the flow of free world trade belonged to the Departments of State and Commerce. The President thereupon asked Mr. Dulles whether, in conjunction with State and Commerce, he could provide the National Security Council with a 20-minute presentation on the general flow of world trade, both trade among the free world nations and between the free world and the Soviet bloc.

Secretary Wilson referred to the fact that the President frequently asked the question of what the United States received in return for the products and economic assistance which it gave to friendly nations. For example, said Secretary Wilson, what specifically does the United States receive in return for the $97 million worth of surplus agricultural commodities which we were providing to Indonesia as indicated by the current Progress Report? [3]

Secretary Humphrey undertook to answer Secretary Wilson. He stated that in return for the $97 million worth of commodities the United States received soft Indonesian currency, which we proceeded to give back to the Indonesians to assist their economic development programs. Secretary Humphrey went on to point out that the Secretary of Agriculture was desperately searching for places all over the world in which he could dump our agricultural surpluses without actually hurting anybody in the process. This was an impossible objective. One could not dump these surpluses without doing some degree of injury to somebody.

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[3] Reference to a Progress Report dated March 26, not printed, which was discussed earlier in the meeting.

Secretary Wilson then raised the question as to whether it would not be advantageous to approach the British with the suggestion that we store in Great Britain a certain amount of our surplus food products. In the event of a future war the British people might very well starve if the sea routes were not kept open. It would accordingly be advantageous, both to them and to us, to have food reserves stored in the United Kingdom.

Mr. Lay pointed out that the study of the levels of trade between the free world and Communist China, undertaken by the Council on Foreign Economic Policy, was about ready for Council consideration. He suggested that this report be considered on April 19 together with the new report which the President had just asked Mr. Dulles to make. The President suggested that these two reports be put together.

At this point Secretary Dulles once again inquired about the fate of his proposal that we offer the Czechs a large amount of our surplus agricultural commodities. Mr. Allen Dulles replied that this suggestion had not been ignored, but had been considered by the Operations Coordinating Board at a recent meeting. At the time of this consideration the Attorney General had provided an opinion that it would be contrary to the provisions of Public Law 480 for the United States to dispose of agricultural surpluses behind the Iron Curtain.

The President then adverted to the fact that many of the restrictive laws on trade with the Soviet bloc countries had been passed when the country was in a state of hysteria and when the McCarthy problem was at its height. Now that this hysteria had lessened, the President wondered if it would not be sensible to take a fresh look at the wisdom of this restrictive legislation. Secretary Dulles said that he would confine himself to pointing out that it was "ridiculous" for the United States to have a vast pile of economic ammunition, in the shape of surplus food and agricultural products, which we could use against the Soviets but which in fact all we are doing is sitting on. The President expressed emphatic agreement with this observation, and Secretary Dulles went on to point out that the Soviets raise hell with us by their purchase of surpluses from the underdeveloped countries. Why could we not raise hell with the Soviets by offering to dispose of some of our surpluses within the Soviet bloc?

The President then referred once again to his favorite project of making West Berlin a showcase by sending to it a lot of our surplus food, so that the West Berliners would be the sleekest and best-fed people in Europe. The President recalled that somewhere or other he had had a report on this subject, and the report had said that the West Berliners were already very adequately fed.

Dr. Flemming speculated as to whether the time had not come to revive one of the President's favorite ideas, namely, that the United States should get itself in the position of being able to barter its agricultural surpluses behind the Iron Curtain in return for strategic materials. At the moment, of course, we were completely blocked from this course of action by the provisions in Public Law 480.

Secretary Wilson was inclined to doubt whether the Soviets would barter strategic materials in return for our surplus agricultural products. Admiral Radford warned that if we thus developed trade with the Soviet bloc nations, our allies could well ask us why we were attempting to keep down their own trade with the Soviet bloc.

The President said that in any case he was convinced that the Administration had been much too concerned with what Congress thought about the problem of trade with the Soviet bloc. After all, Congress was primarily moved by political considerations. There was need, therefore, for a new look at the problem of East-West trade generally.

The Executive Secretary suggested that the President might wish to ask the Operations Coordinating Board for a report as to existing legal authority for the United States to trade with Iron Curtain countries and to dispose of agricultural surpluses in these countries. The President replied that he wanted this subject dealt with in the reports from Mr. Dodge and Mr. Dulles scheduled now for the Council meeting on April 19. He wanted all of this put together in one package, together with charts and maps.

Secretary Dulles expressed the wish that the Attorney General review his opinion (referred to earlier) as to the legal authority of the United States to sell or trade its surpluses behind the Iron Curtain.

The National Security Council: [4]

a. Requested the Director of Central Intelligence, in collaboration with the Departments of State and Commerce, to present a report at the Council meeting scheduled for April 19, showing the pattern of international trade, particularly trade between the free world and the Soviet bloc.

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[4] Paragraphs a–c that follow constitute NSC Action No. 1536, approved by the President on April 7. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1956)

b. Requested the Attorney General to present, at the Council meeting scheduled for April 19, a report on the extent to which the Executive Branch, under existing law, has authority to dispose of surplus agricultural commodities to the Soviet bloc.

c. Noted the President's request that the Chairman, Council on Foreign Economic Policy, coordinate the presentation of the above reports with the presentation of the forthcoming CFEP report on multilateral controls on trade with Communist China, which is also scheduled for consideration on April 19.

Note: The above actions, as approved by the President, subsequently transmitted to the Director of Central Intelligence, the Secretaries of State and Commerce, the Attorney General, and the Chairman, CFEP.

S. Everett Gleason

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107. Memorandum of a Conversation Between the Minister of the Japanese Embassy (Shima) and the Deputy Assistant Secretary of State for Far Eastern Economic Affairs (Jones), Department of State, Washington, April 10, 1956[1]

SUBJECT

China Trade Control Discussions with the Japanese

Minister Shima was requested to come to the Department for the purpose of discussing the feasibility of reopening the conversations dealing with Japan's several requests for reductions in the Communist China trade control program. It had been planned to have a discussion with Minister Shima and his two experts who have recently arrived in Washington from Tokyo during the afternoon of April 10.

Mr. Jones explained that we would be unable to have the afternoon meeting since the Congressional presentation on the 1957 Mutual Security Program had been moved forward to Wednesday, April 11, thus necessitating preparations for an earlier presentation than had been anticipated. He assured Minister Shima that the inability to meet as scheduled in no way indicated a diminution in the United States Government's interest in obtaining a full understanding of the Japanese desires in connection with the trade control program. He expressed full appreciation of the cooperation and good faith which Japan had demonstrated during the recent weeks when conversations between the Department and the Japanese Embassy had been held. He specifically referred to Japan's moderation in request for exceptions. He explained that the views which have been expressed to date by Minister Shima have been forwarded to the highest levels inside the United States Government and that these views, including the specific information about individual items, had been of benefit to the United States Government in the review of the items on the CHINCOM differential which was initiated following the visit of Prime Minister Eden.

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[1] Source: Department of State, Central Files, 493.009/4–1056. Secret. Drafted by Parsons.

Mr. Jones noted that the Japanese had depended exclusively upon commercial criteria in placing the various items on their list in order of priority. The U.S. review, however, must of necessity place priority interest upon strategic considerations. It had been thought that the review would have progressed to a point by now where further discussion with the Japanese on the items which they suggested for deletion would have been possible. However, with the new economic drive of the Communists in Asia there has developed some thinking inside the U.S. Government that relaxation at this time would constitute help to the Communists in keeping their promises for developmental assistance. In addition, there has been a very strong reaction in the United States to the 1954 COCOM reduction. The increase in copper shipments following that relaxation has caused alarm on the part of many people both in the Executive and Legislative branches of the Government.

These developments have precluded the finalization of the U.S. Government review at the present time. Our inability to discuss the matter in terms of specific commodities does not indicate any decline in our interest, and we would like to work the matter out with the Japanese. In this connection it would be most helpful to the U.S. Government if it were possible for the Japanese to indicate a minimum position on which they would be willing to support the U.S. in our objectives at the GC meeting.

Minister Shima was informed that throughout the entire U.S. Government there is understanding and appreciation of the position which the Japanese Government has been taking.

Minister Shima stated that he understood the position in which the U.S. Government finds itself at the present time on this subject and furthermore, he is certain that the Japanese Government appreciates the interest of the U.S. in trying to reach a settlement of the problem.

However, he doubted the validity of the argument that CHINCOM reductions would assist the Communists in their new drive into Asian countries. He thought that a reduction in the trade controls could be connected with the new Communist economic drive only in a very general way, namely, that increased trade could be beneficial in the over-all economy of Communist China. However, he failed to see how the delivery of some additional items could be helpful. Accordingly, he thought that it would be necessary to consider individual items in connection with this particular problem.

In connection with the question of additional copper shipments to the Soviet bloc, he expressed a belief that the list review in 1954 should be viewed in a different light from the reduction which the Japanese are currently requesting. He asserted that the original COCOM was established on strategic considerations. Consequently by definition the removal of copper in 1954 involved the elimination of a strategic item. However, he indicated that the Japanese are only requesting the deletion of items which are not strategic in the current situation. Consequently, the arguments which are currently circulating inside the U.S. Government should not be applied to the Japanese proposed list for deletion.

With respect to the possibility of Japan's indicating a minimum position, Minister Shima expressed the conviction that his Government would be unable to present such a position. He explained that the fundamental position in Japan is essentially the same as that of the U.K., namely, that the CHINCOM–COCOM differential should be eliminated. Consequently, if a CG review were to cover the entire CHINCOM–COCOM differential, it would probably not be possible for Japan to abide by an agreement with the U.S. on a minimum position which was below that which the other participating countries were requesting. Also, he thought that the most recent list submitted by the Japanese represents the Japanese Government's views of the situation. He explained that further delineation of priorities by the Japanese Government would be difficult. The absence of trade in the items makes it next to impossible to estimate how much trade would actually develop in each of the items.

Mr. Jones expressed the hope that it would be possible to discuss the individual items with Minister Shima within a short period of time. At the present juncture it is not clear how soon that can take place. However, he hoped that Japan could give us a clearer indication of the items which are bothering them the most.

Minister Shima expressed his appreciation for our kindness and efforts in connection with this problem. However, he stated that he is not sure that it will be possible to produce results from these conversations. He stated that they have two experts from the Foreign Office in Tokyo in Washington at the present time and expressed the opinion that it would be helpful if these experts could have the opportunity of discussion with U.S. experts. Such discussions could lead to a better understanding on the part of the

Japanese experts of the U.S. position on individual items. Further information of this type would be most helpful to the experts, both of whom are representatives of the Foreign Ministry, when they go back to Tokyo and help to administer the Japanese Government's side of the trade control program.

Mr. Jones agreed that this type of discussion might be beneficial and indicated that we would follow up to see whether and when such meetings could be initiated.

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108. Memorandum of a Conversation With the President, White House, Washington, April 18, 1956[1]

[Here follows discussion of unrelated subjects.]

The President spoke at length on his ideas concerning trade. He felt that people approach the matter too narrowly. It is a certainty that nations will trade with each other. We should concentrate on copper and a half dozen items of most advanced machinery and electronics and encourage trade in everything else. There is a feeling that only the Communists would benefit from trade. He is confident that the West has skill in trading such that a net advantage would probably lie with them. He did see positive value in pressing forward with trade with the Satellites in Eastern Europe. Admiral Radford said that we are down to a very few items in terms of trade with the Satellites. We should try, however, to avoid giving them advanced items, thus letting them save the developmental costs which are frequently quite great. The President commented on how he understood Mr. Baruch has completely changed his view as to trade—two years ago he thought we should be very restrictive; today he would make trade completely free. Admiral Radford commented on how the Communists use their trade delegations to "bore in"—also, how they use their trade as a weapon for other objectives. The President said that if it were possible to get agreement between State, Commerce, Defense, and ODM as to what trade means to the world, it might then be possible to get through a national program in spite of the tendencies to demagoguery on this matter and the pressures for restriction arising out of our high prices and high wage rates.[2]

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[1] Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Confidential. Drafted by Goodpaster.

[Here follows discussion of unrelated matters.]

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[2] In a telephone conversation on April 19, President Eisenhower and Secretary Humphrey discussed East-West trade: "President said he was very worried about the whole thing, felt that we had been sticking our heads in the sand. Talking about committee, President said that they had been too long influenced by the McCarthy line—going to have a hard time (with foreign trade bill). President said that what they were trying to do was to dam up the trade currents in the world and they won't be dammed up. Humphrey said he was impressed with Radford's arguments, but President said after all Radford was a military expert and that this was in another field. Humphrey agreed it was ridiculous to treat China other than we treat Russia. Humphrey said it was 'seeking to lock the barn door after the horse was gone.'" (*Ibid.*)

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109. Memorandum of a Conversation Between Secretary of State Dulles and the British Ambassador (Makins), Department of State, Washington, April 13, 1956, 8:30–9:10 a.m.[1]

SUBJECT

Chincom Controls

In the course of a call on the Secretary about other subjects, the Secretary said to Sir Roger Makins that he wished to discuss briefly the problem relating to the Chincom lists. He said that in the US we were in a very bad bind over this, and he knew the strength of the feeling in Britain with respect to review of the Chincom lists. The Secretary said the British had been very patient. Mr. Macmillan had first brought this subject up at Geneva last autumn, and since then it had been discussed during the Eden–Eisenhower visit. The US had been rather remiss in handling this matter expeditiously. However, this entire question was charged with dynamite insofar as Congress was concerned. The Secretary said Congressional leaders had warned him in the most solemn way that if we tinkered with the China trade controls it would jeopardize the passage of the entire Mutual Security legislation this year. While some members of Congress had honest and strong feelings about the maintenance of all controls on China trade, some others were probably using the issue of controls on China trade as a pretext to attack the Mutual Security Program developed by the Administration.

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[1] Source: Department of State, Central Files, 493.009/4–1356. Secret. Drafted by MacArthur.

The Secretary said he did not quite know how to deal with this matter. If we could drag it out and not deal with it until the Congress recessed, it would be extremely helpful. He did not know, however, whether this would be feasible insofar as the UK was concerned in view of the heavy pressures there. Another possibility was an informal loosening up of some of the control items and a tightening up of one or two others such as copper wire. The Secretary said he hoped Ambassador Makins would discuss this matter fully at London, explaining the domestic implications and the effect on our foreign aid program. He mentioned that last evening Senator Knowland, and the evening before Congressman Vorys, had both emphasized privately to him that any serious tinkering with the China trade controls would jeopardize the passage of the Mutual Security legislation.

With respect to the Mutual Security legislation, even without the China trade control element, we were in for rough sledding. The Secretary felt we would get support from the House Foreign Affairs Committee and from the Senate Foreign Relations Committee, but it would run into rough sledding in the Appropriations Committee. Therefore, the Secretary suggested that "we put our heads together to see if we cannot come up with a way to handle this problem, which is of the utmost gravity".

Ambassador Makins said the trouble was that we had announced at the conclusion of the Eden–Eisenhower talks that a review would be made of the China trade control items. Thus far, nothing had happened, and tremendous pressures had built up in the UK. The Secretary agreed, and as he had mentioned earlier, we had been remiss in moving so slowly on it, but he wished Sir Roger to know that there was a problem with the Congress and also serious problems within the government as to what we should do. The Department of Defense opposed in almost an emotional way any relaxation of any of the trade controls, and had made known its opposition to members of Congress. Frequently their opposition was pitched on a highly emotional appeal relating back to the Americans who had died in the Korean war and the fact that we were giving strategic materials to the Chinese Communists, which, if hostilities occurred, would kill more American boys, etc.

Ambassador Makins said he had two personal suggestions to make. In the first place couldn't something be done about rubber? He said the UK had asked for a review of the China controls and that this had been agreed at the Eden–Eisenhower meeting. If we could only quickly say that the review was in process and that something had been done about rubber, the heat could be greatly taken off the British Government. The Secretary said this was an interesting idea. If we could announce something about rubber, could the British do something about putting quantitative limitations back on the shipment of copper wire?

Ambassador Makins said that we had not formally and officially yet asked the British to review the copper wire situation, and suggested that we ask them to do so. He knew there were heavy pressures in Britain not to limit the sale of copper wire, but he was not certain that something could not be done. He then reverted to the question of rubber and said an absurd situation existed where Ceylon sold rubber and Malaya did not, and it was creating problems . . . .

The Secretary said he had been reflecting on this matter, and although he had not spoken to other elements within the US Government, he now felt that instead of handling the COCOM review in the glare of the spotlight with high level negotiators, it was of the utmost importance to handle it very quietly. He said he felt there were possibilities of our doing something about rubber, and he hoped the British could do something about copper wire, since this was a very important item that everybody, including the Congress in this country, knew about, and they also knew that this copper wire was necessary for Soviet development and expansion in their atomic and guided missile capabilities. . . .

Sir Roger said that if the only result of a review was to put copper wire back on the list, it was a hopeless exercise, as the UK would never agree to this. If, on the other hand, the US would take some controls off rubber or some other items, something might be done about copper wire. He agreed that this problem should be dealt with quietly and not in the glare of the spotlight, and he would talk about the problem with his Government immediately following his return to London.

There was some brief discussion about the desirability of avoiding publicity. Sir Roger said that if some items were decontrolled, there would have to be public announcement in the UK so that shippers and exporters would know. The Secretary commented again that the less publicity given to all this, the better, although he understood that shippers and exporters would have to know.[2]

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[2] On April 18, J.E. Coulson of the British Embassy delivered a message from Selwyn Lloyd to Dulles, indicating that Lloyd "would be most grateful to receive a very urgent reply":

"Roger Makins has told me of your talk with him last Friday about China Trade controls. I understand your problems, but I too am disturbed at the situation at this end and I am wondering if it will soon be possible for you to let me have a reply to the detailed proposals for reductions in the lists which the Prime Minister left with the President last January.

"The situation is so difficult not only in Parliament but for the countries in Asia; I have in mind countries like Ceylon and Malaya who may be alienated by an attitude which they do not understand or accept.

"Having been told to expect the results of your review this week, we told Parliament under strong pressure that we expected the China Committee to meet shortly. I am afraid that this is inevitable even if it results in disagreement. Please let me know what you think about that."

Dulles forwarded the message to President Eisenhower the following day. (Eisenhower Library, Dulles Papers, White House Memoranda)

110. Memorandum for the Record, by the Under Secretary of State (Hoover), Washington, April 19, 1956[1]

SUBJECT

East-West trade

Following the Cabinet meeting on April 19th, the President met with the Secretary and me to discuss the East-West trade situation with regard to the U.K.

The Secretary made the following points:

1. The U.K. first asked us to review their request for a revision of the CHINCOM list in October 1955. We discussed this matter during Eden's visit in January 1956. At this meeting we agreed to review individual items, although we did not accept a major revision of policy. Lloyd later sent a message to the Secretary asking how we intended to proceed. The Secretary felt that he must answer this letter immediately since six months had elapsed from the time of their first approach to us.

2. The Secretary outlined the hearings currently being held by the McClellan Committee, and the difficulties being placed in the way of the passage of the Mutual Security Act. He specifically referred to the danger of possible restrictive amendments which would prohibit aid to countries trading with the communist bloc. I pointed out that many of our difficulties stemmed from Defense Department witnesses who opposed almost any trade with the bloc and the desire of certain committee members to engage in partisan politics. It seemed inadvisable to engage in a formal high-level negotiation looking toward a lowering of controls on strategic items under these circumstances.

3. The Secretary outlined inter-departmental differences that had arisen in the Council on Foreign Economic Policy and the difficulty of reaching an overall Administration position. He described a meeting of a few hours earlier between himself, Secretaries Humphrey, Wilson, and Weeks, Mr. Hollister, Mr. Gordon Gray, Adm. Leyton of the JCS, and myself. The Secretary had stated in this meeting the necessity of answering Lloyd's letter immediately. Widely divergent views were expressed and none of those present appeared willing to accept the responsibility for making a decision. The following points arose during the meeting:

(a) Desirability of restoring copper wire to the COCOM list.

(b) Avoidance of formal negotiations with the UK until late 1956.

(c) Probability that some lowering of CHINCOM controls, including rubber, would be necessary if the voluntary control system was to be maintained. It was pointed out that some leading countries were giving formal notice of "exceptions", such as trucks and steel, followed by shipments of the items.

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[1] Source: Department of State, Central Files, 450.60/4–1956. Secret.

No agreement was reached at this meeting.

4. The Secretary proposed to the President that he would write a personal letter to Lloyd outlining the dangers of the legislative situation and some of the substantive points included in (3) above. The President agreed.

The President stated that many of the nations in the free world had to trade with the bloc if they were to survive economically, and that the items on the strategic list should be held to an absolute minimum. He agreed, however, that we should make every effort to persuade the UK to put copper wire back on the COCOM list.

H H Jr.

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111. Letter From Secretary of State Dulles to Foreign Secretary Lloyd[1]

Washington, April 19, 1956.

DEAR SELWYN: I have this morning received your message about trade controls, with its note of urgency. I have been working actively on the matter all day and give you herewith the best conclusions I can now arrive at.

This is a very difficult problem and it is full of serious implications. The Senate Committee, headed by Senater McClellan, has taken a very active and aggressive interest in this matter. There are, I fear, political overtones and appreciable danger that a Congress which finds foreign aid particularly distasteful this election year might try to find in this a reason either for truncating the entire program or for attaching conditions which would seek to penalize heavily any trade with the Soviet or Chinese Communist bloc in whatever Congress might define as strategic goods. I can assure you that this danger is not imaginary.

I feel today that under all the circumstances the best we could contemplate would be a package which would (a) put copper wire back on the COCOM list and tighten up somewhat the entire control system and (b) take rubber and a number of miscellaneous items, perhaps 30 or 40, off the CHINCOM list.

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[1] Source: Eisenhower Library, Whitman File, Dulles–Herter Series. Personal and Confidential. Dulles delivered this letter to Coulson at 4:55 p.m., April 19; see the memorandum of conversation, *infra*. On April 20, Dulles forwarded a copy of this letter to President Eisenhower with a brief covering note.

The Defense Department and Chiefs of Staff feel most strongly about the copper matter and I really wish that, quite apart from anything else, you would review this situation not as a matter of bargaining between us but as part of our common endeavor to retard the development of the Soviet military establishment, particularly in terms of modern weapons and means of communication—all of which requires copper and, above all, copper wire.

I feel confident that none of us would have wanted to take copper wire off the list had we foreseen the obviously great need therefor of the Soviet Union for its military purposes, as demonstrated by its very heavy purchases.

Please let me know whether you would want to try to work along the above lines. If so, we will try to respond, although it is extremely awkward for us to be dealing with this matter at the same time on two fronts, one the Congressional front and the other the international front with our associates in London and Paris.

Sincerely yours,

John Foster Dulles [2]

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[2] Printed from a copy that bears this typed signature.

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112. Memorandum of a Conversation Between Secretary of State Dulles and the British Chargé (Coulson), Department of State, Washington, April 19, 1956 [1]

SUBJECT

East-West Trade

The Secretary handed Mr. Coulson a letter replying to Selywn Lloyd's recent communication on the subject of the China trade controls. After reading the letter Mr. Coulson thanked the Secretary and said he was very glad to note that a concrete proposal had now been made.

The Secretary said that he was sorry that we had not been able to communicate our views on this subject to the British before this, but as Mr. Coulson was aware, this whole question is receiving a lot of attention and there is a great deal of opposition to any relaxation of controls. He referred particularly to the activities of the McClellan Committee and said that there are some members of Congress who would be glad to seize upon any suggestion of a relaxation of controls as an excuse to reduce or eliminate our foreign aid program.

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[1] Source: Department of State, Central Files, 450.60/4–1956. Confidential. Drafted by Elbrick.

The Secretary said that he had worked very hard on this reply with many members of the Cabinet and that he had discussed their final decision, as embodied in the letter to Selywn Lloyd, with the President. The Secretary said that the final paragraph of the letter might appear to be phrased in a rather tentative way but, he explained, he had not had an opportunity to discuss the question with Mr. Hoover and Mr. Hoover is to appear tomorrow morning before the McClellan Committee on the subject of East-West trade. The tentative nature of the final paragraph of the letter was due to his desire not to embarrass Mr. Hoover in any way. He could assure Mr. Coulson, however, that it is our firm intention to go through with this proposal if the British Government so desires.

Mr. Coulson said he assumed that the proposal would have to be discussed eventually on a multilateral basis. The Secretary agreed but asked that the British Government hold it very closely and take every precaution to prevent any "leaks" until we have had an opportunity to discuss it again on a bilateral basis. Mr. Coulson said he would emphasize this point in communicating the proposal to his Foreign Office.

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113. Memorandum of Discussion at the 282d Meeting of the National Security Council, Washington, April 26, 1956 [1]

[Here follow a paragraph listing participants at the meeting and item 1.]

2. Pattern of International Trade, Particularly Trade Between the Free World and the Soviet Bloc (NSC Action No. 1536–a [2])

The Executive Secretary reminded the Council that the President had requested Mr. Joseph Dodge, as Chairman of the Council on Foreign Economic Policy, to coordinate Council consideration of the next three items on the agenda. Accordingly, Mr. Dodge rose and asked Mr. Allen Dulles to present the first report. (A copy of Mr. Dulles' report is filed in the Minutes of the meeting.)[3]

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on April 27.

[2] See footnote 4, Document 106.

In his presentation Mr. Dulles referred first to a chart entitled "Divisions of World Trade" (in billions of dollars). This was divided into trade of the free world, East-West trade, and intra-bloc trade, and the levels of trade in each of these categories compared between the years 1948 and 1955. Apart from the great growth of trade within the free world from 1948 to 1955, Mr. Dulles pointed out that the major change was the considerable increase in intra-bloc trade.

Mr. Dulles then turned to a second chart, entitled "Bloc Imports" (in billions of dollars). This chart also gave the major categories of items imported by the Soviet bloc. Soviet bloc imports from the free world had been just under $2 billion in value in 1948. In 1955 these imports were just over $2 billion in value. Mr. Dulles indicated that after controls on free world exports to the Soviet bloc had first been imposed in 1948, European trade with the bloc had increased slightly, while the trade of the United States and Canada with the bloc had dropped abruptly and remained low. Mr. Dulles also pointed out the greatly increased importation of food products into the Soviet bloc, which since 1954 had become a net importer of food products. The Soviet bloc was likewise still a net importer of manufactured products, though it was now engaged in exporting a considerable number of items of manufactured goods. Likewise, the cost of manufactured goods exported by the Soviet bloc was declining.

Mr. Dulles next turned to a chart which described "Bloc Exports". This indicated that the bloc had exported to the value of just over $2 billion in 1948. This figure had risen to $2,367,000,000 in 1955, with Western Europe again the dominant market.

After a brief description of the system of controls on East-West trade, Mr. Dulles drew the conclusion that the current controls on trade between the West and the Soviet bloc did not impose any serious deterrent to the industrial growth or military capabilities of the Soviet bloc. On the other hand, these controls were effective in reference to certain specific items where they acted as a qualitative deterrent. Mr. Dulles then described the various means by which the Soviet bloc circumvented these controls, with particular reference to copper, shipping, and rubber. He noted that the Soviet Union had imported 100,000 tons of copper in 1955. This was chiefly in the form of copper wire, because this commodity was not decontrolled. Copper wire had thus replaced raw copper, which was the chief form of Soviet bloc imports of copper prior to the decontrol of copper wire. Soviet bloc imports of copper in 1953 and 1954 amounted to approximately 120,000 tons.

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[3] Not printed. (*Ibid.*, Central Files, 460.009/4–2656)

These figures occasioned questions and discussion by Secretaries Dulles, Humphrey and Wilson. Secretary Wilson expressed regret that the West had permitted the Soviet bloc to get so much copper at a time when to have withheld this commodity would have hurt the Soviet bloc. Under Secretary Hoover also pointed out that more effective transshipment controls had helped to reduce the import of raw copper into the Soviet Union in the course of 1955.

With respect to shipping, Mr. Dulles went on to point out that the Soviet bloc sought in particular high-speed freighters and tankers, both of which were under strict control. As a result, they have had to use domestic shipyards in order to construct such vessels. While this had no apparent effect on the Soviet bloc production of naval vessels, it had certainly delayed modernization of the Soviet bloc commercial fleet.

As to free world controls on trade with Communist China, Mr. Dulles expressed the view that, by and large, such controls had been more effective than controls imposed on the European members of the bloc. If all controls were dropped, Mr. Dulles estimated that trade between the West and Communist China would be increased annually by the sum of approximately $125 million.

Thereafter, Mr. Dulles adverted briefly to the problem of rice, particularly in relation to Burma, and closed his formal report with a statement as to future bloc prospects for East-West trade. In this latter context, Mr. Dulles estimated that East-West trade could be doubled in the next five years. He agreed, however, with Mr. Dodge that even if the present levels of East-West trade doubled by 1960, such trade would amount to only 4% of total world trade.

The National Security Council:

Noted and discussed a report by the Director of Central Intelligence on the subject, prepared in collaboration with the Departments of State and Commerce pursuant to NSC Action No. 1536–a.

[Here follows discussion of item 3; for text, see volume IX, page 182.]

4. *Multilateral Export Controls on Trade With Communist China* (NSC 152/3; NSC 5429/5; NSC Actions Nos. 1487,[4] 1494,[5] 1511;[6] NIE 100–55;[7] SNIE 100–56;[8] Memos for NSC from Executive Secretary, same subject, dated January 13[9] and April 9,[10] 16[11] and 23,[12] 1956)

Mr. Dodge reminded the Council of its recent actions on the reference subject, and then proceeded to brief the Council on the contents of the report to the NSC by the CFEP on multilateral export controls on trade with Communist China (enclosure to the reference memorandum by the Executive Secretary dated April 9, 1956). He read the majority views as to the U.S. position in forthcoming negotiations with respect to the ChinCom list. He also read the negotiating objectives and negotiating procedures, on which subjects all departments and agencies were in agreement. Mr. Dodge then read the language proposed by the Departments of Defense and the Treasury as a substitute for paragraph 3–a, which was endorsed by all the other departments and agencies. The fundamental difference between the position taken by the Defense and Treasury Departments, as opposed to the majority position, derived from the fact that all the concessions which Defense and Treasury were willing to make in decontrolling items for shipment to Communist China, came from List A in Annex D of the CFEP report. List A consisted of items judged to have the least strategic and economic significance for Communist China. Finally, Mr. Dodge pointed out that the Joint Chiefs of Staff had endorsed the stricter and shorter list proposed by Defense and Treasury.

At the conclusion of these introductory remarks and explanation by Mr. Dodge, Secretary Weeks expressed surprise that the Department of Commerce was included in the majority position. He had believed that Commerce had sided in this matter with Defense and Treasury. Secretary Humphrey added that this also was his understanding of the position of the Department of Commerce. Mr. Dodge replied that while initially in the CFEP the Department of Commerce had aligned itself with the Departments of Defense and the Treasury, the Commerce representatives had ultimately reversed their position and aligned themselves with the majority view.

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[4] NSC Action No. 1487 was taken by the NSC at its 269th meeting of December 8; see Document 82.

[5] NSC Action No. 1494 was taken by the NSC at its 271st meeting of December 22, 1955; see Document 87.

[6] See footnote 4, Document 92.

[7] Document 43.

[8] Document 90.

[9] See footnote 4, Document 88.

[10] See footnote 5, Document 105.

[11] Not printed. (Department of State, S/S–NSC Files: Lot 62 D 1, Communist China: Multilateral Export Controls on Trade with)

[12] This memorandum enclosed the views of the Joint Chiefs of Staff on the question of multilateral export controls on trade with Communist China. The Joint Chiefs recommended, in a memorandum to Secretary of Defense Wilson, dated April 17, that the NSC support the adoption of the "more exacting" negotiating position set forth in the CFEP papers under discussion.

In concluding his remarks Mr. Dodge called attention to the existence of various ancillary reports bearing on the subject of East-West trade. Among these he singled out for mention a study by the Department of Defense of recent British requests for U.S. . . . technical information. The Defense Department believed that the British requests for this information gave us a handle to use in our negotiations with them on the ChinCom list. Mr. Dodge also noted a study which had been made of the number and character of exceptions which the CoCom and ChinCom countries had made, under which exceptions they had shipped certain controlled items to the Soviet bloc, including Communist China.

When Mr. Dodge had concluded his reference to these and other studies of the problem of East-West trade generally, Secretary Weeks reiterated that the Department of Commerce was in favor of the shorter list proposed by the Departments of Defense and the Treasury; he wished to make this point clear and leave to a later time explanations of the misunderstanding of the Commerce position.

Secretary Humphrey stated his desire to summarize what was essential in the position taken by the Departments of Defense and the Treasury in the CFEP paper. Above all, what these two departments wanted was a firm agreement with our allies to remove certain important items from the list of items which could be traded with the Soviet bloc, before proceeding to add any items which could be traded with the Soviet bloc. Secretary Humphrey also expressed very great concern about the extensive number of items on the exceptions list which had permitted our allies to trade many items which were under control.

The President said he wished to put a question. If we put copper wire on the embargoed list, which of our friends would we hurt and how much would we hurt them? It was pointed out to the President that most of the copper which was going to the Soviet bloc came from Africa, although it was largely British-owned. Mr. Dodge commented that the case for embargoing copper and copper wire was very strong, because these commodities were in short supply in the Soviet Union and were absolutely essential to all kinds of military production and also to the large hydroelectric projects which were being carried out in the Soviet Union and which were currently being offered by the Soviet Union to various underdeveloped countries. The President said that of course he favored prohibiting trade with the Soviet bloc in copper. Otherwise, however, he was strongly against too long and large a list of embargoed and controlled items. The sensible thing was to concentrate on controlling a group of truly significant items and to secure from our allies a commitment for the strict enforcement of controls on these items. If we could obtain these objectives we could say "to hell with the rest of it."

Secretary Wilson expressed strong skepticism as to the value of an embargo on the shipment to the Soviet bloc of combination boring, milling and drilling machines with spindle sizes of six inches and larger in diameter. Secretary Wilson believed the Soviets could make such machines any time they wanted to.

Secretary Humphrey stated that it seemed a matter of great significance to him that the exceptions on the ChinCom list were better than two-thirds of the list itself, and that exceptions on the CoCom list amounted to 80% of this list.

The President repeated that he had very definite feelings on this problem. If we try to maintain too strict a list of controlled and embargoed items, the dam of trade would burst and the whole system of multilateral controls on trade with the Soviet bloc would be carried away in the flood. Accordingly, it was much more sensible to bear down on a few vital products of which we wished to deprive the Soviet bloc. He certainly agreed with Secretary Wilson on the futility of embargoing these boring machines. We should get down to what needs to be done, get our friends to stand firmly with us on these few items, and let the rest be decontrolled.

Mr. Dodge expressed the feeling that the long list of exceptions showed indication of the impending disintegration of the multilateral controls system, particularly as it related to controls on trade with Communist China. In response to this statement, the President expressed great sympathy for the plight of Japan, which he felt was either obliged to trade with Communist China or "pass a tin cup around in San Francisco." Mr. Dodge discussed this matter briefly, and expressed the opinion that the removal of controls on trade between Japan and Communist China would by no means provide a complete answer to Japan's trade and economic problems. The President expressed agreement to the extent of stating that Japan's problems had to be settled in bites, and not all at once.

Secretary Wilson felt that there were two points which needed emphasis on trade between Japan and China. China had obvious need of certain manufactured articles produced in Japan. Japan in turn needed certain raw materials from China. Perhaps the two countries could get together and work it out; but from a psychological point of view, as long as the Japanese feel that the United States has them under wraps, they won't like it. Perhaps the best thing was for us to allow the Japanese to make the effort to increase their trade with Communist China and see for themselves that this was not the real answer to all their problems.

At this point the Secretary of State turned to Secretary Humphrey and asked him whether he was aware that some of our U.S. banks were apparently extending credits to certain banks in Western Europe, which were in turn extending credits to banks within the Soviet bloc. Secretary Humphrey replied that he was at the moment investigating these allegations; indeed, the Attorney General had spoken of it to him only yesterday. Secretary Humphrey went on to state once again the essence of the Treasury position. It was simply a matter of bringing pressure and finding means by which we could exclude certain vital items from going to the Soviet bloc and to secure effective control of these particular items in exchange for a general reduction of other items on the present control lists.

With considerable vehemence, the President expressed his firm opposition to bringing pressure on the British by withholding from them . . . technical information if they refused to agree to our views on the ChinCom list. He said he remembered vividly our dependence in the early stages of the last war on British intelligence, and the generosity with which this intelligence was made available to the United States. He would have nothing to do with what, in practice, amounted to blackmailing Great Britain. Secretary Wilson expressed himself as in complete agreement with the President's position on this point.

Mr. Dodge said that there was one other matter of importance to bring to the Council's attention. In view of what had happened in recent days at the hearings of the McClellan Committee and the difficulties which Secretaries Weeks, Hoover and others had encountered, the question of timing of any Council action to reduce the items on the ChinCom list was of extreme importance. Both State and the International Cooperation Administration were concerned about the possible adverse impact on the current mutual security program in Congress if the Council moved too fast or too fully in the matter of the ChinCom controls.

The President expressed agreement as to the reality of this danger, but Secretary Dulles pointed out that he would be seeing Selwyn Lloyd next Wednesday[13] and would certainly like to be in a position to talk with the Foreign Secretary on the matter of the ChinCom levels. Mr. Dodge added that in any case he felt that certain members of Congress should know what the Council was proposing to do about this problem before we actually begin to do it. Secretary Weeks expressed very strong agreement with Mr. Dodge's latter point. The Vice President said that we need not anticipate any great difficulty with the Foreign Affairs Committee or the Foreign Relations Committee. On the other hand, in the case of the McClellan Committee and Senator Symington, we would find ourselves up against a strictly political maneuver. A big pitch would be made by the Democrats. They would cause much more trouble than the right-wing Republicans. No one need be too worried about McCarthy.

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[13] Dulles was scheduled to arrive in Paris on Wednesday, May 2, for a meeting of the North Atlantic Council.

The President repeated his suggestion that a presentation of the problem to the two Foreign Affairs Committees would be a good way to get things started in Congress. The Vice President agreed that this would be helpful if it proved possible to do it. On the other hand, he did have a distaste for telling McClellan and Symington what we proposed to do in our forthcoming negotiations with the British.

At this point the President turned to Secretary Dulles and asked for his views as to what was the desirable action for the Council to take on this problem. Secretary Dulles replied by stating his feeling that if we could indicate to the British and to our other allies that we are prepared to agree to their continuing to make exceptions with respect to the ChinCom list, such exceptions to be confined to the items in Lists A and B in Annex D, such a procedure would be much more satisfactory than formal negotiations with our allies with the object of amending the actual CoCom list. In other words, if we could operate on the basis of an informal understanding that this Government would not object to continued exceptions within the limits of Lists A and B, this method of operating would be preferable to formalizing changes in the ChinCom list, particularly from the point of view of public relations.

Both Secretaries Wilson and Humphrey expressed great concern over the proposal for Council action made by Secretary Dulles. They predicted that if this Government followed such a course of action the result would soon be the complete wreck of the multilateral controls system on trade with the Soviet bloc and Communist China. Mr. Dodge added that Secretary Dulles' proposal also provided no answer to the problem of copper. Secretary Dulles replied that we would certainly never be able to get copper back on the embargoed list unless we were prepared to be pretty liberal with respect to other items that our allies desired to decontrol.

The President suggested that the United States itself was in a very good position to do something about preventing the Turkish output of borax from finding its way to the Soviet bloc.

The Attorney General then inquired whether, in the course of the forthcoming CoCom and ChinCom negotiations, the United

States could work it out in such a way that when final agreement was reached on the list of items subject to control, this list could be made public. The Congress was very anxious to have this list, and it seemed to the Attorney General that the Congress should have it. Secretary Hoover replied by pointing out that all information on the actual items in East-West trade had long since been made public. The only things which were still kept on a confidential basis and supplied to the Congress on this basis, were the technical descriptions of items which comprised the strategic list. The items of this list, he believed, could not be made public without severe repercussions from our allies. The Attorney General nevertheless contended that the Executive Branch was in an unfortunate position from a public relations point of view because it had withheld this list. Secretary Dulles, however, contended, as had Secretary Hoover, that all products which were actually traded between the West and the Soviet bloc were in the public domain. The only information we withheld from the public were the items that are not traded. In this difference of opinion Secretary Wilson expressed his sympathy for the viewpoint of the Attorney General, while Secretary Weeks expressed his agreement with the position of Secretary Hoover. The President commented that whatever we did we could not jeopardize the multilateral controls system. Secretary Dulles added the warning that we might very well have a break with our allies if we decided to publish the items on the control and embargo list, or if we otherwise persisted in looking at the problems of East-West trade from the narrow point of view of exclusive U.S. interests rather than from the point of view of the free world as a whole.

Secretary Humphrey, noting our very great anxiety to get copper back onto the embargoed list, urged that we bring heavy pressure on Great Britain to accomplish this objective. Secretary Dulles forcefully warned that too much pressure on the British could well result in the breakdown of the Anglo-American alliance. Was Secretary Humphrey seeking this objective?

Secretary Wilson stated his opinion that if we failed to convince the British and our other allies on the rational necessity of embargoing copper wire, the next logical position to which the United States should retreat was a position that we would embargo actual munitions to the Soviet bloc and let the controls on everything else go by the board. If we did this, we would at least get credit throughout the world for supporting the doctrine of free trade.

Secretary Dulles said that in effect Secretary Wilson was suggesting that we use all the remainder of the control and embargo list as a bargaining point for securing a complete and effective embargo on sales of copper and copper wire to the Soviet bloc. Secretary

Dulles believed that if we agreed to giving up controls on everything else, we could certainly get copper wire back on the embargo list.

Secretary Humphrey observed that if one stopped and thought of all that we had done for the British, one would suppose that they would be willing to agree to embargo shipments of copper to the Soviet bloc. After all, the volume of British trade in this commodity was not in itself so great as to be very important. Moreover, besides the . . . technical information which the British were seeking from us, there was a lot else that the British needed from us and which we could withhold if they proved stubborn. In response to this proposal, the President observed that Secretary Humphrey seemed to be suggesting that we give up our alliance with Great Britain. Secretary Dulles turned to Secretary Wilson and asked with considerable heat whether the Department of Defense was currently doing anything for Great Britain which it did not deem desirable on its own merits from the point of view of U.S. national interest. If the Defense Department was doing such things, they had better quit doing them. Secretary Wilson disclaimed any desire whatever to impair the Anglo-American alliance, but repeated his contention that if the British could not be brought to agree to a rational solution of the copper problem, he advocated a complete change in the basis of our trade policy vis-à-vis the Soviet bloc—namely, continuing to embargo munitions to the Soviet bloc, but otherwise free trade.

The President stated his belief that whatever we are doing about this problem we are certainly doing from the point of view of enlightened self-interest. He expressed, furthermore, support for Secretary Dulles' proposal that we not agree to formal negotiations designed to reduce the ChinCom list levels, but instead continue to wink at the exceptions our allies make to this list and determine if we cannot, as a result, induce them to agree to embargo copper.

Secretary Dulles emphasized again his belief that such a de facto change in the level of trade with Communist China, rather than a formal change in the ChinCom lists, might prove highly advantageous and might enable us to get copper on the list of embargoed items. For one thing, said Secretary Dulles, he did not wish the Administration to be put in the position of appearing to be "going soft" on Communist China. This charge might well be made against us if, by formal Council action, we reduced the number of controlled items on trade between the West and Communist China.

The Vice President said that with respect to this general problem, and particularly with respect to making the ChinCom list public, he would give his advice for what it might be worth. He said that he was well aware of the difficulties Secretary Weeks had encountered with the McClellan Committee. On the other hand, he had very little worry that the general public could be made to believe any charge that the Executive Branch was "soft" on trade with Communist China. In short, he was not much concerned over the politicking which would go on in the McClellan Committee. It was his advice that the Council make the best possible decision on ChinCom controls based on strategic and policy considerations, and leave domestic political considerations out of the picture.

Secretary Dulles again reemphasized that the exceptions which our allies would be permitted to make would all be confined to Lists A and B in Annex D of the CFEP paper, and that such exceptions would be permitted only in return for allied agreement to the embargo of copper wire. Secretary Humphrey still expressed great concern that the course of action suggested by Secretary Dulles would result in the rapid disappearance of all controls on trade between the West and the Soviet bloc. The President stressed his view that what we wanted most of all was an agreement for the embargoing of copper wire, plus a firm commitment by our allies to maintain all other controls upon which they had agreed.

Mr. Dodge at this point expressed his concurrence with the proposal made by Secretary Dulles, provided the exceptions were confined to the A and B lists, and provided the allies agreed in return to embargo copper wire. Mr. Dodge also suggested that along with the items in Lists A and B there should be added the additional items suggested for control by the Secretary of Commerce. In reply to this last point, Secretary Dulles said that he would rather see the borax problem, for example, handled by the United States in a unilateral way. If the United States produced 98% of the world supply of borax it should be able to make a deal with the Turks with respect to the remaining 2%.

Mr. Dodge then said that as he understood the consensus of the Council, the carrying out of Secretary Dulles' proposal would result in no formal meeting of the Consultative Group, but would instead be explored in informal negotiations with the British. At this point the Executive Secretary, with the assistance of Mr. Dodge and the President, summed up the consensus of the meeting and indicated the probable shape of the Council action on this item.

In closing the discussion, the President inquired of Secretary Dulles whether it would be helpful if he were to write to Sir Anthony Eden in support of the decision which had been reached at this meeting. Secretary Dulles replied that he thought such a letter would be useful, and that he would prepare a draft for the President's consideration.

The National Security Council:[14]

a. Noted and discussed the recommendations contained in paragraphs 3 and 4 of the memorandum on the subject from the Council on Foreign Economic Policy transmitted by the reference memorandum of April 9, in the light of the views of the Joint Chiefs of Staff thereon transmitted by the reference memorandum of April 23; and of the proposed amendment thereto by the Department of Commerce transmitted by the reference memorandum of April 16.

b. Agreed that, rather than undertaking formal Consultative Group negotiations at this time for a revision of the ChinCom list, the Secretary of State should be authorized to consult with the UK and other participating countries:

> (1) To seek, as a matter of high priority, agreement to the embargo of copper wire, and the largest practical measure of support for other U.S. negotiating objectives set forth in paragraph 3–b of the CFEP report.
>
> (2) To the extent required to achieve (1) above, to indicate that the United States would not interpose objections if, subject to possible formal consultations later on, the UK and other participating countries made exceptions—where such a course seems to them clearly indicated and important—for items on Lists A and B of Annex D to the CFEP report and natural rubber and, in the case of Japan, wooden fishing vessels.

c. Noted that the President would communicate with Prime Minister Eden in support of the position in b above.

d. Agreed that the United States should make an effort to limit the sale of boron materials produced in the United States, Turkey, and elsewhere in the free world, to free world countries.

Note: The actions in b and c above, as approved by the President, subsequently transmitted to the Secretary of State. The action in d above, as approved by the President, subsequently transmitted to the Secretary of Commerce for appropriate action in collaboration with the Department of State.

[Here follows discussion of items 5–8.]

S. Everett Gleason

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[14] Paragraphs a–d that follow constitute NSC Action No. 1540, approved by the President on April 27. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1956)

114. Letter From President Eisenhower to Prime Minister Eden[1]

Washington, April 27, 1956.

DEAR ANTHONY: We have had quite a few discussions here these last days about the COCOM and CHINCOM trade controls. Foster wrote to Selwyn Lloyd a few days ago and he will be talking further with Selwyn at Paris next week. In the meantime I want to let you know how much I hope that you can find it possible to get copper wire back on the embargoed list. All the information I get from our military, intelligence and economic people is that these exports are seriously interfering with our common objectives in a number of unfortunate ways. On the other hand, we are inclined to believe that it is also consistent with our common objectives to acquiesce in liberal use of the exception procedure for rubber and a number of other items on the CHINCOM list as Foster will explain further to Selwyn in Paris.

I am sorry that we have been so slow about this matter but it is full of all sorts of complications for us.

I congratulate you on the way you emerged, at least in public opinion, from your encounter with the Bear.[2]

With warm regard,

As ever,

D.E.

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[1] Source: Eisenhower Library, Whitman File, International File. Confidential. Transmitted in telegram 6461 to London, April 27. (Department of State, Central Files, 460.509/4–2756)

[2] Reference is to the official visit of Bulganin and Khrushchev to the United Kingdom, April 18–27. Documentation on the visit is *ibid.*, 033.6141.

115. Memorandum of a Conversation, Department of State, Washington, May 1, 1956[1]

SUBJECT

Control of Shipments of Strategic Items to Communist Countries

PARTICIPANTS

The Secretary	Sir Roger Makins
Mr. Merchant, EUR	Sir Hubert Graves
Mr. MacArthur, C	

Sir Roger said he had originally expected to have some detailed instructions this morning to discuss with the Secretary regarding strategic controls on shipments of items to Communist countries. However, the recent message from the President had added a new element to the situation, and Foreign Secretary Lloyd had informed Sir Roger that in the light of the President's message he would look forward to discussing this subject with the Secretary in Paris.

Sir Roger said he thought the general approach taken by the President with respect to the Chincom controls was helpful. With respect to copper wire shipments from the UK to the Soviet Union, the UK was willing to review this situation, but Sir Roger emphasized that it was not politically possible, in the light of the recent Bulganin–Khrushchev visit and the heavy play the Soviets had made to increase trade with the UK, for the UK as a result of such review simply to add additional controls on the shipment of copper wire.

The Secretary said he understood the situation and the political difficulties which the British Government would have if, when the Soviets were trying to reduce the Cocom list, the only result were an increase in this list. He thought, however, that it might well be possible to find two or three items on which the controls could be lowered. The Secretary pointed out again the importance we attached to reducing the shipments of copper wire for military . . . reasons, and Sir Roger said he had explained in detail our views to Walter Monckton[2] and Peter Thorneycroft when he, Sir Roger, visited London last week.

It was left that the Secretary and Mr. Lloyd would discuss this matter further in Paris when they met on May 3.

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[1] Source: Department of State, Central Files, 460.119/5–156. Secret. Drafted by MacArthur.

[2] British Minister of Defense.

116. Letter From Prime Minister Eden to President Eisenhower[1]

London.

DEAR FRIEND: Thank you for your letter of April 27 about trade controls. I must frankly tell you that your suggestion of adding to the embargoed list presents most serious difficulties for us. I do not see how we could agree to this now.

As to the CHINCOM list, we greatly need appreciable relaxation, particularly because of progress toward self-government in our colonial territories. A country like Malaya simply does not understand why it has to accept restrictions which are not in operation in, for example, Ceylon.

But Selwyn will talk all this over with Foster in Paris in the next few days.

Kindest regards,

Yours ever,

Anthony[2]

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[1] Source: Department of State, Presidential Correspondence: Lot 66 D 204, Eden to Eisenhower Corres. Secret. The source text is not dated; it was received on May 2.

[2] Printed from a copy that bears this typed signature.

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117. Telegram From the Department of State to the Embassy in France[1]

Washington, May 2, 1956—7:49 p.m.

Topol 1397. Ref: Topol 1385, Deptel 2404 Tokyo.[2] Discussions with Japanese opened May 2.[3] United States representative emphasized discussions exploratory and tentative; indicated United States not prepared participate early CG meeting; stressed United States concern in 1) maintaining substantial China differential 2) restoring copper wire to embargo control 3) achieving other United States Negotiating Objectives including ship controls. Expressed desire Japanese support United States position. Stated United States in return would raise no objection exceptions requests for certain agreed items and presented items contained Lists A and B for discussion purposes only. Emphasized confidential nature discussions.

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[1] Source: Department of State, Central Files, 493.009/5–256. Secret; Priority; Limit Distribution. Drafted by William C. Ockey, Acting Officer in Charge of Economic Affairs, NA; approved by Howard Jones; and repeated to Tokyo and London. The Embassy in Paris was instructed to pass this telegram to USRO/ST.

[2] Telegram 2404 to Tokyo, May 1, repeated to Paris as Topol 1385, summarized the action taken by the NSC on China trade controls at the meeting of April 26. (*Ibid.*, 493.009/5–156)

[3] A more detailed memorandum of the discussions with the Japanese on May 2, drafted by Ockey, is *ibid.*, 493.009. In a memorandum dated April 30, addressed to Prochnow, Elbrick, and Sebald, Hoover explained Dulles' position on negotiating with the Japanese: "The Secretary assumed that no firm commitments would be made in

Japanese representative Shima said Japan understands necessity for maintaining stricter controls at this time and does not expect removal entire differential when next CG meeting held. Emphasized ultimate objective his government is elimination entire China differential; has received no indication reaction his government to holding CG meeting. Will seek instructions this point; also to restoring copper wire to embargo control and other U.S. objectives. Next joint meeting scheduled May 7.

Appreciate being advised promptly results conversations with British French and other PC's.

Hoover

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these negotiations and that the Japanese would not be advised of our discussions with the British. (*Ibid.*, 493.009/4–3056)

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118. Editorial Note

Secretary Dulles arrived in Paris on May 2 for a series of talks with European officials prior to the opening of the North Atlantic Council meeting on May 4. In a letter to President Eisenhower, dated May 3, Dulles reported that he had held several conversations with Foreign Secretary Lloyd that day, in which "we covered most of our problems." Dulles noted that he and Lloyd talked about the trade control problem, with Lloyd repeating what Eden had told Eisenhower in January about the British difficulty in placing copper wire on the prohibited list. "He did, however," Dulles continued, "indicate that they might put it on the quantitative list which would hold down the amounts rather sharply if we could find two or three other items on the COCOM strategic list which could be taken off so that they would not be in the public posture of having met the Bulganin–Khrushchev plea for eliminating the list with a stiffening of the list. I am asking our people at home to study urgently whether something can be done along this line; and if you could reinforce that note of urgency, I would appreciate it." The Secretary also mentioned that he and Lloyd discussed the CHINCOM list "along the agreed lines," and indicated that he had made it clear "that our attitude on the Chinese list was part and parcel of our position with reference to copper." This letter was transmitted to the Department in Dulte 3 from Paris, May 3. (Department of State, Central Files, 110.11–DU/5–456)

Tedul 11 to Paris, May 4, reads as follows:

"Re your discussion with Lloyd on China Controls. (Dulte 3)

"At EDAC meeting today all interested agencies felt lists A & B sufficient quid pro quo for addition copper wire to Quantitative control and suggest you reaffirm this position with British.

"However if UK not demanding major trading items but only interested in being able state publicly controls being reduced as well as increased, two items (discussed separate cable which follows) were agreed upon as least harmful if deletion some COCOM items absolutely necessary." (*Ibid.*, 460.509/5–456)

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119. Telegram From the Delegation at the North Atlantic Council Meeting to the Department of State[1]

Paris, May 4, 1956—2 p.m.

Secto 13.

1. Secretary May 4 discussed China trade control problem with Lloyd.[2] He emphasized US desire reimpose embargo copper wire as directly related matter. He explained US willingness indicate items on China differential list whose export to Communist China as exceptions would not arouse US objections. He explained US preference this course rather than definitive changes basic structure multilateral China differential controls.

2. Lloyd referred to rubber problem. Emphasized failure permit Malaya export rubber to Communist China would inflame Malayan demands for independence with serious effect upon UK efforts retain Malaya within sterling bloc. Lloyd wondered whether excep-

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[1] Source: Department of State, Central Files, 493.009/5–456. Secret; Limited Distribution. Repeated to London.

[2] A memorandum of that conversation, drafted on May 15 by Rountree, is *ibid.*, Conference Files: Lot 62 D 181, CF 701.

tion for rubber deliveries to China possible. Secretary said this possible within operative framework CHINCOM exception procedures. Referred to US action extending aid to Ceylon provided rubber exports Commie China held to 50,000 tons annually, suggested similar quantitative restriction possible in case Malaya.

3. Lloyd said embargo copper wire impossible in wake B–K[3] visit, but willing consider quantitative control. However, such action by UK would require some deletion from COCOM list to counterbalance increased control copper wire. Secretary made clear US view improved control copper wire (preferably embargo) regarded by US as related US willingness liberalize its attitude on exceptions, not as related further reduction COCOM list. Latter question would have be reviewed.

4. Lloyd expressed interest in items considered by US fall within liberalized exceptions procedures proposed by Secretary. Noted recent UK export tractors helped UK in holding off commercial pressures for drastic revisions ("gave us a fortnight"). Asked whether US intended proposed liberalized exception understanding apply UK alone; Secretary said US would inform other CHINCOM countries at some point, mentioned discussion with Japanese in Washington. Ministers agreed as procedural method that items as to which US might provisionally tolerate CHINCOM exceptions would be discussed with UK and UK would give views on possible quantitative limits copper wire and items which it might desire deleted from COCOM list.

5. Later May 4 UK given list A and B plus rubber as spell-out of items subject US non-objection formula within framework outlined by Secretary.[4] UK representatives pouched list London for urgent comment and agreed obtain London views on copper wire question which delegation unable provide. British made following points this discussion:

a. Noted US list did not contain many items on UK priority list except chemicals, specifically regretted absence wheeled agricultural tractors.

b. Inquired as to basis for US list; told it was based on strategic analysis items in relation Communist Chinese economy and war potential—i.e., list includes items of least relative strategic importance.

c. Inquired whether domestic publicity for changed procedures discussed by ministers; informed not and that US view would be that adjustment in exceptions handling would be accomplished quietly without public announcement.

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[3] Bulganin–Khrushchev.

[4] These lists were approved by the NSC at its 282d meeting of April 26; see Document 113.

d. Inquired for clarification how US proposal would differ from present situation (implying presently possible for UK ship differential items following certain CHINCOM formalities). US representative said difference likely be two-fold: first US non-objection as contrasted present time consuming CHINCOM debates; second possibility simplification CHINCOM exception formalities—i.e., limitation precedures on specified items to after-fact statistical notification.[5]

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[5] At 5 p.m., May 4, Robert Wright met with members of the British Delegation in accordance with the arrangements made by Dulles and Lloyd to discuss further the problem of China trade controls. Wright summarized the discussion in a memorandum to Merchant, May 4. (Department of State, Central Files, 493.009/5–456)

In Tosec 26 to Paris, May 4, the Department stated that it questioned whether quantitative control for copper wire "can be significant enough improvement in control from US point of view" to justify the downgrading of any items on the International Lists. "Our experience setting quotas in COCOM," the telegram reads in part, "is that competitive commercial rather than security considerations dominant with result quotas often meaningless. Case copper wire would expect several PC's (e.g., UK, Japan, Germany, Belgium, Italy) make requests based on current shipments. Quite possible copper wire quota would be larger than quantity moving without control. Further, downgrading two or three items as concessions to UK could have snowball effect because other exporting countries would ask different concessions and lead wholesale relaxation COCOM controls. Any change COCOM levels so soon after McClellan Sub-Committee investigation 1954 revision of course subject further Congressional criticism." (*Ibid.*, 460.509/5–456)

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120. Letter From the Secretary of State to the President[1]

Washington, May 14, 1956.

DEAR MR. PRESIDENT: I enclose herewith a copy of a message from Selwyn Lloyd which I received over the weekend indicating that they do not find acceptable the suggestions which I made to them in Paris, and are apparently going to proceed on a more or less unilateral basis to make "exceptions" covering the differential between the Chincom and Cocom lists.[2]

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[1] Source: Eisenhower Library, Whitman File, Dulles–Herter Series. Confidential.

[2] The message was delivered to Dulles on May 12, under cover of a note by Coulson. Also enclosed was a proposed parliamentary question and answer on the subject of China trade controls, scheduled to be raised on May 14. By this means, the United Kingdom intended "to make a suitable announcement in Parliament on the future administration of control over the China Trade." Another copy of the Lloyd's message is in Department of State, Central Files, 493.009/5–1256.

I think that there is room for an honest difference of opinion as to the strategic importance of the copper wire. There seems to be some difference of opinion in our own ranks on this business.

Faithfully yours,

J. Dulles

[Enclosure]

TEXT OF MESSAGE FROM FOREIGN SECRETARY

My colleagues and I have carefully considered the proposals made by you in Paris. We regret very much that they do not seem to be adequate to meet our point of view. As you know, we wanted to take action on the China List last October but have repeatedly deferred it out of regard for your representations. We now think that the best course is for us to rely upon an extended use of the exceptions procedure for permitting reasonable exports of items on the China "differential". We shall have regard to the list put forward by you in Paris but we must also consider the position in the Colonies and at home.

With regard to an embargo on copper wire, I am afraid that we are agreed that that would be impossible for us in the light of the statement made at the end of the visit of the Soviet leaders. In any case there seems to be a substantial difference of opinion between us about the strategic consequences and the relative importance of our copper wire exports. I am preparing a considered statement on these aspects which I will send to you as soon as possible.[3]

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[3] In telegram 6847 to London, May 12, the Department informed the Embassy of Lloyd's letter to Dulles. The telegram reads in part as follows:

"Pending receipt promised additional statement Department's preliminary reaction is that British have not closed door to further US–UK consideration extent to which exception procedure may be invoked. This view reinforced by fact message made no reference to convening CG meeting or to UK intent make special statement in CHINCOM." (*Ibid.*, 460.509/5–1256)

121. Letter From the British Ambassador (Makins) to Secretary of State Dulles[1]

Washington, June 6, 1956.

MY DEAR SECRETARY OF STATE: I have been asked by Selwyn Lloyd to give you the enclosed statement of the reasons why Her Majesty's Government in the United Kingdom do not feel able to reimpose an embargo on copper wire exports to the Soviet bloc.

Selwyn Lloyd asks me to add that he and the Minister of Defence have given this matter their personal consideration and that, after his conversation with you in Paris, he has gone most carefully into the question with his colleagues.

Yours sincerely,

Roger Makins

[Enclosure]

COPPER WIRE EXPORTS TO THE SOVIET BLOC

Her Majesty's Government have given most careful consideration to the view of the United States Government that special strategic importance attaches to placing uncovered copper wire under embargo to the Soviet bloc. For the reasons given below, however, they feel unable to share the view of the United States Government on this question and they accordingly regret that they cannot see their way to agreeing to such an embargo.

2. There is not, Her Majesty's Government believe, any significant difference between the United States and United Kingdom estimates of the supplies of copper available to the Bloc. The United Kingdom estimate that production within the Soviet Bloc in 1955 totalled some 500,000 tons and imports some 100,000 tons, of which 80,000 tons consisted of bare wire licensed by the United Kingdom and other Western countries.

3. These figures admittedly show that the Bloc countries cannot meet all their requirements from their own resources. But Her Majesty's Government have no grounds for thinking that the Bloc countries have difficulty in meeting purely military requirements for copper, whether in the form of wire or in other forms. Her Majesty's Government believe rather that these purely military requirements

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[1] Source: Department of State, Presidential Correspondence: Lot 66 D 204, UK Officials Corres. Confidential.

are comparatively small and that, even if all imports were cut off, they could easily be met out of the Bloc's indigenous resources and would in fact be met, to the detriment, if necessary, of the civilian economy. Her Majesty's Government recognise that Western exports of uncovered wire may well be giving assistance to the Soviet Bloc's programme of industrialisation and electrification. They would not, however, regard the hampering of the general industrial development of the Bloc as one of the objectives of the agreed strategic export controls.

4. Her Majesty's Government would recall that particular attention was given to copper wire in the talks between the United States and the United Kingdom defence experts which were held in London last year, to consider what commodities should be embargoed in order to hamper the Bloc countries in improving the security and efficiency of their communications. It was then agreed that certain specialised types of communications cable and associated equipment were worthy of embargo, and joint proposals to this effect were in due course accepted by the other Western countries. After careful study, however, Her Majesty's Government for their part came to the conclusion at that time that there was no case for an embargo on copper wire in this context, since only a small proportion of the Bloc's copper supplies was likely to be needed for communications. After renewed consideration of the problem, they are bound to say that they still adhere to the view that copper wire does not merit embargo in this context either.

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122. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Secretary of State[1]

Washington, June 6, 1956.

SUBJECT

China Trade Controls Problem

The attached paper (Tab A), cleared by EUR, FE, and S/P, has been prepared as a report by you to the NSC regarding (a) the status of talks with the UK and Japan on the China trade control problem and (b) alternative courses of action for resumption of discussions with these countries and other Participating Countries (PC's). Mr. Hoover, in your absence, asked that the paper be coordinated with the CFEP prior to submission to the NSC.

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[1] Source: Department of State, Central Files, 493.009/6–656. Secret. Drafted by Knoll; concurred in by EUR, FE, and S/P.

The alternative courses of action are set forth in paragraphs 7 and 8 of the paper (Tab A).

Recommendation

It is recommended that you approve the attached paper for submission to the NSC after coordination with the CFEP.[2]

[Tab A]

CHINA TRADE CONTROLS PROBLEM[3]

Problem

The problem is

a) to report to the NSC on the status of discussions with the United Kingdom and Japan; and

b) to request, in view of discussions recently held with the United Kingdom and Japan, additional guidance from the NSC for an early resumption of discussions with those and other Participating Countries (PC's).

Discussion

1. At its meeting on April 26 the NSC reviewed the CFEP recommendations on the China trade control problem and agreed that, rather than undertaking at this time formal negotiations through the Consultative Group (CG) for a revision of the China list, the Secretary of State should be authorized to consult bilaterally with the United Kingdom and other PC's:

a) To seek, as a matter of high priority, agreement to the embargo of copper wire and the largest practical measure of support for other United States Negotiating Objectives set forth in paragraph 3(b) of the CFEP report.

b) To the extent required to achieve (a) above, to indicate that the United States would not interpose objections if, subject to possible formal consultations later on, the United Kingdom and other PC's made exception—where such a course seems to them clearly indicated and important—for items on lists A and B of

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[2] Dulles initialed his approval on the source text.

[3] Secret. Drafted by Wright and Knoll; concurred in by ITR, RA, EUR, CA, FE, and S/P.

Annex D to the CFEP report and natural rubber and, in the case of Japan, wooden fishing vessels.

2. On May 3, the Secretary of State raised this matter with Mr. Lloyd in Paris, advancing the most important and concrete of the Negotiating Objectives, i.e., (a) the necessity for maintaining a substantial differential of control over trade with Communist China; (b) the need to embargo copper wire; (c) the US desire to avoid a CG meeting and the deletion of items from the China embargo list; and (d) the importance of maintaining strict exceptions procedures over the China list items other than those on lists A and B. (The Negotiating Objectives not discussed with Mr. Lloyd are listed in Tab A. These Objectives are generally of the long-run type and regarding which the United States has no immediate specific proposals to make to the other PC's but may wish to raise in the next few months.)

Mr. Lloyd responded on May 12 stating that the US proposals were not adequate to meet the British point of view; that, while having regard for the US List, they intended to rely upon an extended use of the exceptions procedure to permit reasonable exports of items on the China differential; and that they could not agree to an embargo on copper wire and would explain their views in a further statement. The UK has since informed us that while they will not press for a CG meeting, they would not oppose one if requested by another PC; further, they do not intend proposing to the United States that additional items be added to the US List.

3. Simultaneously with the UK talks, discussions were begun with the Japanese Embassy wherein the whole range of Negotiating Objectives was discussed. While the Japanese have not replied to all of our proposals, in particular the embargo on copper wire, they have stated that our exceptions list is not sufficient and have suggested the addition of nine items and parts of ten others.

4. We know that most other CHINCOM PC's favor ultimate abandonment of the China differential list though not necessarily in a single step. The French have recently initiated conversations with other PC's concerning their own list of items. Both Germany and Italy have requested our comments on lists for deletion containing items not on the US list. Some of the PC's resent the fact that we have consulted the British but not them and believe that the United States is deliberately attempting to conceal the results of our review from them or to confront them with a US/UK fait accompli. Unless substantive talks are conducted with the other PC's as soon as possible, one of them might precipitously call a CG meeting which, under agreed procedures, the United States could hardly boycott. Even if a CG meeting is not called, increased and indiscriminate use

of the exceptions procedures seems likely unless the United States takes some initiative in urging restraint.

5. The UK Parliamentary announcement on May 14 regarding their liberalized exceptions policy[4] has evoked adverse Congressional reaction, including a public statement by Senator McClellan and an attempt in the House Foreign Affairs Committee to amend restrictively the Mutual Security Act.

6. The United States has not been successful in limiting significantly shipments of goods which other PC's have been making in increasing amounts to Communist China under established exceptions procedures. Although certain PC's have expressed an appreciation for the US position on China controls and a willingness to show some measure of restraint, nevertheless the fact remains that the United States has little bargaining power in the economic defense field which would prevent PC's from making a broader scale use of existing exceptions procedures than the United States would like to see. However, the promise by the United States that it will participate eventually in a CG meeting which they would hope might lead to a definitive settlement of the China trade control differences between the US and other PC's might lead them to exercise some restraint in respect to China trade exceptions in the intervening period.

7. It is imperative that there be early inter-agency agreement on the nature of our approaches to the other PC's. The following courses of action might be considered:

(a) The United States might take no further initiative at this time in discussions with other PC's on this problem. The other PC's might tacitly assume that the United States would not wish a CG meeting until after the November elections, but we would have no assurance that one would not be called. Further, each would probably approve shipments as required by commercial pressures. Since there would be no agreed list of items subject to a liberalized exceptions procedure, exceptions might result over the whole range of the China list leading eventually to a complete frustration of the differential.

(b) The United States might seek to identify through consultation with other PC's as limited a list of items as possible which after final review and authorization by the NSC would serve as the list of items which could be exported under exceptions procedures without US objection.

Such a list, to have any chance of acceptance by other PC's, would need to include many items not on the list of 81 previously approved by the NSC. It seems questionable that it would be possible to reach inter-departmental agreement on such a list within a short period. If, in addition, the various Negotiating Objectives were to be sought it is doubtful that negotiations could be successfully concluded given the UK rejection and the fact that PC's now have virtual freedom to export under exceptions procedures without agreement on a list of items and without acceptance of our Negotiating Objectives.

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[4] The Embassy in London reported on the British Parliamentary announcement in telegram 5285, May 15. (Department of State, Central Files, 460.509/5–1556)

United States agreement on any list of items for simplified exceptions procedures might prejudice US freedom in a consideration of the China trade problem later in the year.

(c) The United States might seek an interim agreement that the PC's

> i) will be discriminating in their use of the exceptions procedures so as to avoid vitiating the central purpose of the multilateral China controls pending definitive discussion of the problem;
>
> ii) will permit only limited quantities of items to be shipped and these to be judged on a case-by-case basis; and
>
> iii) will have regard to the contribution which the item may make to the military strength of Communist China in accordance with a strict interpretation of the CHINCOM exceptions procedures.

In return, the United States would agree not to object to exceptions cases which met these standards and would agree to participate in a CG meeting in late November or early December to seek a definitive settlement of differences between the United States and other PC's on the China trade control problem.

(In fulfilling this commitment the United States as a general rule would refrain from raising objections to Document 782 cases unless there is clear evidence that the above-listed standards are not being met.)

This course may not materially affect the volume of trade which could result in any case under any solution short of a definitive one. It would leave the United States freer to seek an eventual solution than would agreement on a clearly defined list. It would provide a period of experience under which any "copper wire" type of case could be identified before we have agreed to decontrol. This course maintains the framework of multilateral consultation and has the merit of simplicity of negotiation.

8. Whichever alternative in paragraph 7 is selected, the Negotiating Objectives set forth in paragraph 3(b) of the CFEP report of April 6, 1956 would be sought on their merits as detailed proposals for their fulfillment are formulated in EDAC. With specific reference to copper wire, the objective should be to seek as restrictive a quantitative control as possible since it is now apparent that a copper wire embargo cannot be negotiated successfully in the face of the British position. It is possible that some or all of these Objectives may not be attainable prior to a meeting of the Consultative Group.

Tab A

U.S. NEGOTIATING OBJECTIVES NOT DISCUSSED WITH MR. LLOYD

1) With respect to the China differential controls:

b) To continue to apply effective bunkering and voyage licensing controls to the differential area;
d) To achieve a clearer and firmer undertaking through COCOM to deny or strictly control to Eastern Europe items which are being obtained by Eastern Europe from the Free World and then diverted to Communist China.

2) With respect to COCOM controls:

c) To obtain acceptance of improved controls over the sale, transfer and repair of merchant vessels;
d) To achieve improved quantitative control (specific proposals would be prepared in advance of the CG meeting);
e) To seek improvement of reporting procedures and possible establishment of "peril points" or other similar techniques for IL–III items.

3) With respect to general CG/COCOM/CHINCOM considerations:

a) To work toward a closer coordination of CG and NATO on information related to and on objectives towards the Soviet Bloc.[5]

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[5] On June 6, this paper was forwarded to Dodge, under cover of a memorandum by Kalijarvi, which noted that "it would be appreciated if an early meeting of the Council could be scheduled to discuss the paper." (*Ibid.*, 493.009/6–656)

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123. Letter From the Secretary of Defense (Wilson) to the Secretary of State[1]

Washington, June 22, 1956.

DEAR MR. SECRETARY: I note with concern the recent U.K. actions on multilateral controls on trade with Communist China, the flagrant use of exceptions procedures, by public announcement, and by contact with other governments which, in effect, is undercutting the United States in the field of trade controls and is seriously weakening the United States' position in the Far East. I should further like to point out in connection with this matter, the need for action prior to the June 26 meeting.[2] Should we fail to take action, it is not unlikely that Congressional reaction might well jeopardize our whole aid program.

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[1] Source: Department of State, Central Files, 493.419/6–2256. Secret.

Another matter of concern to me is the current U.K. plans and proposals with respect to their defense commitments to NATO. The point in connection with this matter is the unilateral manner in which these proposals are being considered.

My particular concern is more with the manner in which these actions are being carried out without close coordination and cooperation with us. These actions seem to indicate a decision on the part of the U.K. to pull away from a close alliance with us in these important and far-reaching matters. I feel that strong representation should be made and that they should be informed that we may be forced to make a critical reappraisal of the whole structure of our relations.

Those of us in the Department of Defense who understand these facts feel that either the above actions should be taken or the facts of the British decision on trade controls should be given to the Congress before they complete action on the aid bill.

Sincerely yours,

C.E. Wilson

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[2] Reference is to a meeting of the China Committee scheduled for that date.

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124. Letter From the Secretary of State to the Secretary of Defense (Wilson)[1]

Washington, June 28, 1956.

DEAR MR. SECRETARY: I refer to your letter of June 22, 1956 (S–0720), regarding certain aspects of the question of China trade controls, and other matters.

The Department of State and its missions in the field have been unremitting in the effort to maintain an effective multilateral control over trade with Communist China. The problem of maintaining such a control is, as you are well aware, a difficult and complex one, since it rests, and can only rest, on voluntary cooperative action among the participating countries.

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[1] Source: Department of State, Central Files, 493.419/6–2856. Secret. Drafted by Moline and Timmons; cleared with Kalijarvi, Howard Jones, MacArthur, and Elbrick.

Our objective is to preserve the multilateral control structure with the most significant level of control attainable. I am sure you appreciate that attempts at coercion of our Allies in this matter would seriously risk the collapse of the entire structure.

You mention in your letter the U.K. announcement that it intends to make extended use of the exceptions procedure. You will no doubt recall that for some two years the U.S. Government has been made sharply aware of the increasing dissatisfaction of most of the other participating countries with the China differential, and that the question of modification was formally raised by the British Government with the U.S. Government in November of last year and later by Prime Minister Eden with the President during the talks in Washington in January of this year. The British have inquired several times since then regarding progress on the review of this question which the President directed be undertaken. The British Government made it clear during the January talks that unless the differential could be modified by multilateral action it would be forced to some action on a national basis.

Any deterioration of the China trade controls is a matter of serious concern to this Department. It must be recognized, however, that each nation remains the final judge of its national interest, and retains freedom to act accordingly. I need not point out that the U.S. Government has itself had to act unilaterally on certain matters where we felt our interests to be involved. We cannot reserve one standard for ourselves and apply another to our Allies.

You have also mentioned in your letter the meeting of the China Committee that was scheduled for June 26. This meeting did not take place. Instructions were sent to our delegate to that Committee instructing him, had the meeting taken place, to oppose any weakening of the controls through the exceptions procedure.[2] The U.S. delegate to the China Committee will continue to urge restraint upon the other participating countries in the use of the exceptions procedure.

As regards the general question of U.S. policy on China trade controls, this policy is, as you know, now under review at a high level among the interested Departments, including the Department of Defense. Involved in the review is the question of further approaches to the participating countries to reinforce the U.S. position as it has already been set forth in the China Committee. This Department favors such approaches.

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[2] Apparent reference to Topol 1629 to Paris, June 22, not printed. (Department of State, Central Files, 493.419/6–2156)

I have, of course, kept the appropriate Congressional Committees informed of developments with respect to China trade controls, and I pointed out then that the practical effect of the exceptions procedure could not yet be gauged. In particular, it could not be concluded that the use of the procedure would break down the multilateral control structure. In this connection, we have just received word from the Embassy in London that the British Foreign Minister has issued instructions that the use of the exceptions procedure is to be controlled as tightly as possible.[3]

I also note that in your letter you have touched on the question of U.K. defense planning, stating that the U.K. is acting unilaterally with respect to its NATO defense commitments. We have recently been in touch with the British Government, reminding them of the need for consultation by that Government with its NATO partners before any major changes are made in its forces. The U.K. again emphasized, in Mr. Macmillan's statement to the House of Commons on June 26, its intention to deal with NATO defense matters in concert with its Allies.

Finally, I think I need not stress the fact that the Anglo-American Alliance is one of the key-stones of our own security and that of the entire free world. I know of no actions or intention on the part of the British Government which warrant the conclusion in your letter that there seems to be a decision "on the part of the U.K. to pull away from a close alliance with us . . . ".[4] From time to time there will undoubtedly be differences on particular issues between the British and ourselves. In deciding upon the U.S. course of action in such cases, we must have regard to the overall U.S. national interest, and not merely to one aspect thereof. The making of such judgments is, of course, the function of this Department, under the direction of the President. It is clear to me that any statement to the British along the lines you suggest in your letter, that "we may be forced to make a critical appraisal of the whole structure of our relations", is not advisable in the circumstances to which you refer.

Sincerely yours,

John Foster Dulles[5]

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[3] Apparent reference to telegram 5967 from London, June 26, not printed. (*Ibid.*, 460.419/6–2656)

[4] Ellipsis in the source text.

[5] Printed from a copy that bears this stamped signature.

125. Memorandum From the Deputy Under Secretary of State for Political Affairs (Murphy) to the Secretary of State [1]

Washington, July 12, 1956.

SUBJECT

United States Position on Proposed British Shipments to Communist China

Problem

Should the U.S. opposition to the UK request in the China Committee for approval to export to Communist China 350 Land Rovers (jeeps) and a quantity of heavy tractors be changed to approval?

Background

On July 9 [2] the British requested U.S. acquiescence in a UK proposal (a) to export to Communist China Land Rovers . . . and heavy tractors (no longer under control to the European Soviet bloc but . . . still on the China differential); and (b) to change the CHINCOM exceptions procedures so that all items on the differential embargo to China (including those under quantitative control to the European bloc) could be shipped under the liberal . . . procedure rather than the stricter procedure now . . . .

On July 10 I gave Ambassador Makins a note (Tab A) [3] expressing U.S. opposition to both proposals. On July 11 the British notified us that they would propose the shipment of the jeeps and tractors in CHINCOM on July 12 but that they would not put forward the general proposal. [4] Later in the day we transmitted instructions to the USDel in Paris which, while recognizing British difficulties, opposed the UK request in CHINCOM on the grounds that the items are strategic and the justification inadequate. [5] Today (July 12) Ambassador Makins called me to emphasize that unless the U.S. could find it possible to accommodate the UK on the two shipments, repercussions in the UK would be bad and the U.S. would be pictured as promoting British unemployment.

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[1] Source: Department of State, Central Files, 493.009/7–1256. Confidential. Drafted by Wright; concurred in by Howard Jones, Moline, Kalijarvi, and Hoover.

[2] The British note of July 9 is attached to a memorandum from Kalijarvi to Hoover dated July 10. (*Ibid.*, 493.009/7–1056)

[3] Not attached to the source text; it is *ibid.*, 493.419/7–1056, along with a memorandum of conversation by Kalijarvi.

[4] A memorandum of that conversation, drafted by Kalijarvi, is *ibid.*, 493.419/7–1156.

[5] Reference is to Topol 57 to Paris, July 11, not printed. (*Ibid.*)

Discussion

1. If we refuse to make an accommodation to the British position the consequences would be that: (a) we would probably not in fact prevent the shipment; (b) we would, however, be acting consistently with the position we have taken with other countries on other exceptions cases of similar importance; (c) we would be acting consistently with the NSC policy direction; (d) we would be in a defensible position towards the Congress and the public; (e) the unpopularity of the U.S. in the UK arising from our opposition, if it became known, would not be essentially different from the already widespread unpopularity among most of the other participating countries of the U.S. refusal to modify its China trade control policy for the last two years, though the British attitude might be somewhat more pointed in view of unemployment in the British automotive industry.

2. If we do make an accommodation to the British, the consequences would be that: (a) our acquiescence would likely become known and would result in a Congressional hue and cry, particularly over the Land Rovers, with an impact on the foreign aid program; (b) the approval would lead to other large exceptions for the same or equally important commodities; (c) the U.S. would have acted inconsistently with the position we have taken towards other countries on similarly important cases—notably Italy and Japan; (d) the U.S. position would be inconsistent with the existing CHINCOM criteria which require justification in terms which the British cases do not meet.

Recommendation

It is recommended that the U.S. not alter its opposition to the proposed UK exports.[6]

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[6] Dulles initialed his approval on the source text. Later that day, Murphy telephoned Ambassador Makins and, in the Ambassador's absence, informed Coulson of the U.S. decision regarding the proposed British shipments to the People's Republic of China. "Coulson hemmed and hawed a bit," Murphy explained in a July 12 memorandum to Fisher Howe, "saying he thought the British Government would have great difficulties with this and would have to reserve their position." (*Ibid.*, 493.009/7–1256)

126. Memorandum From the Steering Committee of the Council on Foreign Economic Policy to the Chairman of the Council (Randall) [1]

CFEP 501/11 *Washington, July 13, 1956.*

SUBJECT

Review of Economic Defense Policy

In response to the request of the Chairman of the CFEP for a report on the proposed policy revision of NSC 152/3 submitted to the CFEP on July 8, 1955 (CFEP 501), the Steering Committee has reviewed the problem and submits the following report.

1. The proposed policy revision of July 8, 1955 was not finalized because of the possible bearing of the then forthcoming Geneva Four Power Foreign Ministers' meeting upon the policy paper. The Steering Group was, however, continued on a standby basis and was utilized for the purpose of developing position papers for the East-West trade aspect of the Geneva meeting and for developing recommendations with respect to the China trade control question. The proposed policy revision of July 8, 1955 contained two unresolved points, one relating to the method of applying the United States anti-frustration policy to shipments to friendly countries and the other relating to the timing and procedure of altering United States controls after a finding that Communist China should no longer be regarded as an actual, rather than potential, aggressor. In a memorandum of March 30 to the CFEP, the Commerce Department proposed a revision in certain paragraphs in NSC 152/3 to resolve differences on one of the two unresolved questions—the one relating to the United States anti-frustration policy.

2. Subsequent to July 8, 1955 there have been substantial changes in the world situation in general and with respect to East-West trade controls in particular. Prominent among these changes are the following:

a. increasing evidence of Soviet bloc progress in important military and industrial fields as exemplified by new operational military aircraft and by production and research advances in the atomic energy field;

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[1] Source: Eisenhower Library, CFEP Records. Secret. Clarence B. Randall replaced Joseph Dodge as Chairman of the CFEP on July 10. On July 18, Thorsten Kalijarvi, Chairman of the Steering Committee, forwarded this report to Randall under cover of a brief memorandum. On July 23, Cullen transmitted the report to the Council under cover of a brief memorandum that noted that the report had been scheduled for CFEP consideration at its meeting of July 31.

b. a stepped-up Soviet program of political-economic activity in certain underdeveloped countries, particularly in Asia and the Near East, with evidence of some success;

c. marked unwillingness by many participating and other cooperating countries to continue the present multilateral control program without substantial curtailment of the CHINCOM controls, and even in some cases of COCOM controls; examples of this attitude are the following:

> (1) numerous official public statements by participating governments which attack the basic underlying concepts of current multilateral trade controls and which are followed by increasing unilateral activity by such governments with the effect of decreasing the effectiveness and cohesion of the multilateral controls; the United Kingdom has been most active in this regard, with several other important PC's readily following the United Kingdom lead;
>
> (2) rapid increases in the use of exceptions procedures in making shipments of embargo items to Communist China and the improper construal of these procedures to facilitate making exceptions which, if continued, will circumvent the entire differential control;
>
> (3) marked lack of success in recent United States diplomatic approaches to the participating and other countries on the trade control program;
>
> (4) an increase in the volume of East-West trade, including strategic trade, and in the view by most Free World countries that such trade should be both normalized and facilitated as a matter of policy.

3. Contrasted with the foregoing pressures for reducing existing controls are the pressures on the United States Government for their retention and improvement, as evidenced by critical attention to this subject by Congress, notably as a result of the McClellan Committee hearings, to the 1954 revision of the COCOM controls. Furthermore, the United States has attached positive importance on political and psychological grounds to the maintenance of the maximum possible multilateral and unilateral controls towards Communist China.

The dilemma the United States now faces is therefore as follows:

> (1) If we do not acquiesce in some substantial relaxation of the control system, we may jeopardize the entire multilateral control system;
>
> (2) If we do acquiesce in any substantial relaxation, such action may give rise to opposition in this country, particularly in Congress, which could affect the trade control program and jeopardize other programs contributing to the mutual defense effort.

The United States, although willing to consider some modification of CHINCOM controls in return for strengthening of the remaining controls, has thus far refused to consider a more general revision of either the CHINCOM or COCOM controls. It has at the same time been largely powerless to prevent increasing unilateral resort to exceptions for shipments to Communist China without prior consultation in CHINCOM.

4. Although there has been no basic change in Chinese Communist policies against which the United States unilateral and the multilateral trade controls were initially directed, the foregoing circumstances clearly suggest that the attitude of our CHINCOM allies favoring relaxation of CHINCOM controls has materially hardened since July of 1955. A further review of our economic defense policy in the light of the present situation is therefore necessary. This review should take into account all relevant aspects of the problem, including political and military as well as economic defense considerations.

Recommendation

5. Since events have overtaken the Steering Committee recommendations of July 8, 1955, the Steering Committee recommends as follows:

(a) That the existing controls and policies (notably NSC 152/3 and NSC 5429/5) be continued unchanged for the present, subject to such interim policy directions as may be necessitated by circumstances. (The National Security Council decision on April 26, 1956 proposed a list of some 81 items to be subject to a liberal exceptions policy, as a part of a negotiating package together with certain compensating concessions to be obtained from other countries. This package has subsequently been judged to be generally unacceptable to two key countries, and in accordance with another part of the same Council decision, should therefore be returned to the Council for review. This new review is all the more imperative as the list of items has been construed by certain agencies to be a limitation on the flexibility in granting exceptions provided by NSC 152/3 and NSC 5429/5.)

(b) That the proposed policy revision in CFEP 501/6 Enclosure 4 is not an adequate framework for economic defense policy under present circumstances and that it is not sufficiently more responsive than NSC 152/3 and NSC 5429/5 to merit its finalization as a substitute.

(c) That the unresolved issues in CFEP 501 and the specific Commerce proposals of March 30 should be set aside pending a more comprehensive review of policy.[2]

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[2] In a memorandum to Dodge, dated March 30, Harold McClellan explained that the Department of Commerce wished to add the following paragraph to the EDAC paper, "Summary Report and Recommendations":

"To achieve agreement by the CG that any agreed relaxation beyond the items covered by List A of Annex D would not become effective until such time as there is a successful conclusion of the current U.S.-Communist Chinese talks in Geneva

(Continued)

(d) That the CFEP request the EDAC to prepare promptly, as an initial step, an evaluation of the issues presently confronting the economic defense program and suggested courses of action for developing a revised policy for transmittal to the NSC at the earliest possible date. (It appears doubtful whether a CG meeting on the CHINCOM problem can be delayed beyond early December. It is equally doubtful whether a major policy review can be completed for NSC action much earlier than the end of October. These timing pressures should be reflected in any deadline given to the EDAC on the assignment suggested above.)

(Continued)
relative to (a) release of U.S. prisoners and (b) renunciation by the Communist Chinese of the use of force as an instrument of National policy, particularly in the Taiwan area." (Eisenhower Library, CFEP Records) The EDAC paper was discussed by the CFEP on April 3; see Document 105.

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127. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Deputy Under Secretary of State (Murphy)[1]

Washington, July 18, 1956.

SUBJECT

China Trade Controls Problem

In response to your request for a background summary on the history and status of the China trade control problem, there are attached the following tabs:[2]

Tab A: Summary
Tab B: Possible courses of action
Tab C: Chronology of developments
Tab D: Composition of embargo lists
Tab E: Trade by members of CHINCOM with Communist China including CHINCOM exceptions

The urgency of the problem is brought into clear focus by the recent UK exceptions for Land Rovers and tractors coupled with the UK statement of July 13 criticizing US inflexibility and formally raising the question in CHINCOM of the desirability of modifying the China controls. (See Paris Polto 104 Tab F)[3] It is probable that most of the other PC's are in substantial agreement with the UK. In the Land Rover and tractor cases concerning which the US was the only opposing country, several important PC's stated that they view these cases as precedents to justify similar future cases of their own.

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[1] Source: Department of State, Central Files, 493.009/7–1856. Secret. Drafted by Knoll, Wright, and Hodge; Robertson, McConaughy, and Moline (in draft) concurred.

[2] Tabs A, C, D, and E are not printed.

The present situation poses a difficult dilemma for the US Government. On the one hand there is a growing determination on the part of most leading CHINCOM countries to effect drastic modifications of CHINCOM controls and further reduction of COCOM controls. On the other hand the US has been opposed to any significant relaxation of the China differential controls. In the face of this unresolved difference of views, it is apparent that we are losing an effective multilateral China trade control program. The general attitude of other CHINCOM countries, together with recent unilateral actions by the UK in particular, have created a situation where continued opposition by the US to any significant weakening of the controls is now being used by the UK and others as an excuse for possible abandonment of the entire multilateral control system on the ground that constant US opposition "to the views of the majority" makes the system increasingly unworkable. This places us in an untenable position in CHINCOM. A differential level of controls over trade with Communist China has been, and continues to be, a basic element in our overall Far Eastern policy strongly supported by Congress and the American public. To salvage as substantial a differential as possible at this juncture, serious consideration should be given to the possibility of modifying China trade controls in the very near future on a basis which would restrain CHINCOM members from unilateral actions which have adverse effects on overall US policy in the Far East. It is our judgment that, unless the US is prepared to concede, however reluctantly, an immediate and significant readjustment of China trade controls, we shall by the end of the year, if not sooner, find ourselves unable either to preserve any CHINCOM differential at all or to forestall proposals already voiced for a new relaxation of COCOM controls.

Tab B

CHINA TRADE CONTROLS PROBLEM

Possible Courses of Action

The following courses of action are available for consideration:

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[3] Not printed. (Department of State, Central Files, 493.419/7-1356)

a) *The U.S. might take no further initiative at this time in discussions with other PC's on this problem*. The other PC's would assume that the U.S. would not wish a CG meeting until after the November elections. On the further assumption that the U.S. inaction means "non-objection" each PC would probably approve shipments of embargoed items as required by commercial pressures. Since exceptions might be made over the entire range of the differential a complete frustration of the differential could result, the only limiting factor being U.S. or possible other PC opposition to cases submitted for prior consultation.

b) *The U.S. might seek to identify through consultations with other PC's as limited a list of items as possible which could be exported under exceptions procedures without U.S. objection*. Such a list, to have any chance of acceptance by other PC's, would have to include many items not on the list of 81 previously approved by the NSC. It seems questionable that it would be possible to reach inter-departmental agreement on such a list within a short period. If, in addition, the various negotiating objectives were to be sought it is doubtful that negotiations could successfully be concluded given the current attitudes of the UK and certain other PC's.

c) *The U.S. might agree to negotiate a list of CHINCOM items, based on the Japanese counter proposal plus a limited number of additional items of special significance to other CHINCOM countries, as to which exceptions procedure could be applied without U.S. objection for an interim period, assuming no worsening of the Far East situation, and pending a CG review at a later date*. This alternative might meet with opposition within the U.S. Government because of the strategic importance of some of the items which would have to be included for exception treatment if multilateral agreement is to be obtained; however, if negotiable with the majority of CHINCOM countries, it would deprive the rest of the majority support they now have for a complete dismantling of the differential, and would preserve in substantial measure the political and psychological benefit of differential treatment of Communist China in line with our Far East policy.

d) *The U.S. might seek an interim agreement that the PC's will limit their exceptions cases now subject to Doc 782 . . . procedure in return for which the U.S. would agree not to object to cases meeting such standards and to participate in a CG meeting in late November or early December to seek a definitive settlement of the problem*. In view of the recent UK proposal to extend the Doc 782 to the entire differential there is some question whether this alternative would be negotiable even as an interim measure.

e) *The U.S. might acquiesce in an extension of the Doc 782 exceptions procedure to the entire differential.* This would have the effect of retaining the form and letter of the controls but removing all substance, thereby leaving only a meaningless control.

f) *The U.S. might agree to negotiate a substantial reduction in the embargo list to be accomplished in two or three stages over a specified period of time and, assuming no worsening of the Far East situation, might agree to a further review at a later date.* This alternative would probably meet with opposition within the U.S. Government because of the strategic importance which Defense attaches to practically all of the items on the China embargo list; however, if negotiable with our Allies, it would permit an orderly relaxation of the control level and at the same time allow the preservation of at least part of the differential (i.e., a hard core which might have political and psychological benefit). The U.S. might hope to accomplish at the same time the addition to the COCOM lists of copper wire, boron, merchant vessels, and possibly one or two other items.

g) *The U.S. might agree to acquiesce in the removal of the differential by stages.* As in the case of the previous course of action, the U.S. might hope to accomplish at the same time the addition to the COCOM lists of certain priority items. This alternative would be inconsistent with our current overall Far Eastern policy and, accordingly, negotiations along these lines could not be considered without a full reappraisal of this policy.

h) *The U.S. might agree to a complete relaxation of the China trade controls to the COCOM level as favored by a large number of other PC's.* This alternative is completely inconsistent with our current overall Far Eastern policy and, accordingly, negotiations along these lines could not be considered without a full reappraisal of this policy.

128. Minutes of the 45th Meeting of the Council on Foreign Economic Policy, Executive Office Building, Washington, July 31, 1956 [1]

PRESENT

Clarence B. Randall, Special Assistant to the President—Chairman
Herbert V. Prochnow, Deputy Under Secretary of State
Sinclair Weeks, Secretary of Commerce
True D. Morse, Under Secretary of Agriculture
Dennis A. FitzGerald, Deputy Director, International Cooperation Admn.
Gordon Gray, Assistant Secretary of Defense
Arthur S. Flemming, Director, Office of Defense Mobilization
Percival F. Brundage, Director, Bureau of the Budget
James S. Lay, Jr., Executive Secretary, National Security Council
Gabriel Hauge, Administrative Assistant to the President
William H. Jackson, Special Assistant to the President
Raymond J. Saulnier, Member, Council of Economic Advisers
Felix E. Wormser, Assistant Secretary of the Interior
Paul H. Cullen, Secretary, Council on Foreign Economic Policy, and their assistants

1. The Council approved the minutes of May 16 as corrected.
2. The Council approved the minutes of May 31 as corrected.

3. CFEP 501—East-West Trade.

The Council considered the report and recommendations of the Steering Committee concerning the revision of U.S. economic defense policy (NSC 152/3 and paragraph 7c of NSC 5429/5) outlined in CFEP 501/11, dated July 23, 1956.

The Council agreed that:

(1) Existing controls and policies (NSC 152/3 and paragraph 7c of NSC 5429/5) should be continued for the present, subject to such interim policy guidance as may be necessary.

(2) The Steering Committee's proposed policy revision of July 1955 should be withdrawn in view of the changed situation since July 1955 (no formal action on withdrawal is necessary).

(3) The Economic Defense Advisory Committee (EDAC) be requested to review NSC 152/3 and paragraph 7c of NSC 5429/5 in the light of current developments and to submit recommendations for an appropriate policy statement as soon as practicable and in no event later than October 31, 1956.

(4) EDAC be further requested to prepare recommendations for policy changes in the event that the Council should later determine that the maintenance of the multilateral control structure and the preservation of free world unity should require further relaxation in international trade controls, especially toward Communist China.

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[1] Source: Eisenhower Library, CFEP Records. Secret.

(5) EDAC be requested to keep the Council advised of the progress it is making on this assignment through biweekly progress reports.[2]

[Here follows discussion of unrelated subjects.]

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[2] On August 3, Paul Cullen informed James Lay of the action taken by the CFEP at this meeting. On August 7, Lay forwarded Cullen's memorandum to the NSC. (Department of State, S/S–NSC Files: Lot 62 D 1, Communist China: Multilateral Export Controls on Trade with)

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129. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Prochnow) to the Secretary of State[1]

Washington, August 3, 1956.

SUBJECT

China Trade Control Policy

The negotiating position set by the NSC on April 26, 1956, whereby the United States would tolerate exceptions for a list of 81 items in return for obtaining agreement to embargo of copper wire and to certain other negotiating objectives, has been tried with the UK and Japan. It was acceptable to neither. The UK rejected the US proposal; the Japanese wished to expand the list of 81 items subject to liberalized exceptions. A new interim policy is necessary as a basis for renewed talks with the UK, Japan and other CHINCOM countries, if the United States is to forestall a further onslaught by other countries upon the China controls when the CHINCOM resumes its meetings the end of August.

The attached memorandum sets forth an interim course of action for approaches to other countries pending development of definitive policy recommendations by the Economic Defense Advisory Committee by October 31 in accordance with a CFEP assignment of July 31. The proposal represents an easement in our earlier negotiating position (including a change to quantitative control for copper wire). In substance we would attempt to find a formula for restraining the use of exceptions, either through an expanded list of items subject to liberalized treatment or, failing that, through a more general undertaking.

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[1] Source: Department of State, Central Files, 493.009/8–356. Secret. Drafted by Wright; cleared by RA, CA, FE, and S/P.

The attached recommendation is supported by both EUR and FE. It will probably be opposed by Defense, and possibly may be opposed by Commerce.

Recommendation

That you sign the attached memorandum to the Chairman of the CFEP. [2]

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[2] Dulles approved this recommendation and sent the attached memorandum to Randall on August 7; see *infra*.

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130. Memorandum From the Secretary of State to the Chairman of the Council on Foreign Economic Policy (Randall) [1]

Washington, August 7, 1956.

SUBJECT

China Trade Controls Problem

Transmitted herewith is a proposal for an interim course of action with respect to the China trade control problem pending development of definitive policy recommendations by the Economic Defense Advisory Committee in accordance with the assignment of July 31 by the Council on Foreign Economic Policy.

The attached proposal would provide a basis for renewed talks with CHINCOM participating countries prior to the resumption of CHINCOM sessions the end of August. Early consideration of this matter by the Council would therefore be appreciated.

John Foster Dulles [2]

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[1] Source: Department of State, Central Files, 493.009/8–756. Secret. Drafted by Wright.

[2] Printed from a copy that bears this stamped signature.

[Enclosure]

CHINA TRADE CONTROLS PROBLEM[3]

Problem

The problem is to determine an interim policy with respect to the China trade control question to permit an early series of bilateral discussions with other CHINCOM participating countries prior to the resumption of CHINCOM meetings the latter part of August and pending the development of final policy recommendations by the Economic Defense Advisory Committee by October 31.

Discussion

1. It was agreed in the Council on Foreign Economic Policy on July 31 that the State Department would submit its proposal for an interim policy with respect to the China trade control question for consideration by the Council at an early meeting. The background assumptions underlying the State Department proposal contained herein are as follows:

a. The interim policy approved by the NSC on April 26 has been found to be non-negotiable with the United Kingdom and Japan in its present form. The British have rejected the proposal for embargo of copper wire and have found the list of 81 items unacceptable as a basis for limiting their exceptions. The Japanese have accepted the proposal for embargo of copper wire but have suggested the addition of 19 items to the list of 81. Settlement with the Japanese seems possible if the United States agrees to some or all of these items.

b. In view of the United Kingdom and Japanese positions, it has seemed impracticable to approach other participating countries in the same terms. Most other CHINCOM participating countries favor ultimate abandonment of the China differential list though not necessarily in a single step. The French, the Germans and the Italians have each devised lists of items for priority deletion and have developed varying formulas for removal of the differential none of which would fit within the United States package proposal of April 26.

c. If no further bilateral talks are held by the United States with other participating countries prior to the end of the year, it remains possible for any other participating country to urge a Consultative Group meeting in terms that the United States would find it difficult to reject even though the United States review of long-term policy were incomplete.

d. In the meantime, increased and indiscriminate use of the exceptions procedures seems likely unless the United States takes some initiative in urging restraint.

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[3] Secret. Drafted by Wright and cleared by RA, CA, FE, and E.

e. The inability of the United States thus far to propose some negotiable accommodation on the China trade control question has resulted in at least the temporary loss of our position of leadership in the CHINCOM to the United Kingdom as a result of its statement of July 13 and has had a corroding effect upon cooperation within the multilateral organization.

f. If the United States is unable to devise some realistic basis on which to resume discussions with other participating countries on the China problem, the damage may extend to the COCOM system as well. The French have already requested trilateral talks on both the CHINCOM problem and the deletion of items from the COCOM list.

2. In light of the foregoing assumptions, it seems clear that the United States must find some basis for approaching other participating countries on the China trade control question if the situation in CHINCOM/COCOM is to be kept from virtually irreparable deterioration.

Recommendation

It is recommended that pending the development of a final position by the United States on the China trade control question, the following should be the interim course of action:

(1) Settlement should be made with the Japanese on the basis of adding to the original United States list of 81 items as many of the 19 items covered by the 782 procedure as necessary (see ED/EC D–102 of June 14, 1956[4] for the listing of items), the Japanese thereafter to support the United States in efforts to gain acceptance of this list by other participating countries.

(2) The list as amended should be proposed to other participating countries (the United Kingdom to be approached last) as a basis for United States non-objection to CHINCOM exceptions. It should be understood that the list might be expanded in the course of discussions with other countries by an additional limited number of items subject to the 782 procedure (in the range of ten to twenty items of interest to countries other than Japan) to permit the development of an agreed list.[5]

(3) The negotiating objectives set forth in paragraph 3(b) of the CFEP report of April 6, 1956 should not be considered as a sine qua non for purposes of the interim policy, but instead as objectives to be pursued on their merits at the most propitious time; the objective

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[4] Not printed. (Department of State, MDAC Files: Lot 59 D 665)

[5] It should be noted that certain of the items appearing on the original list of 81 (about 34 items) are subject to the Document 471 prior consultation, quid pro quo justification. These items are of significantly less strategic importance than is the case with Document 471 items generally. In order to preserve the effectiveness of the Document 471 exceptions procedure, an adjustment should be made in CHINCOM (assuming agreement on a liberalized exceptions list) to make clear that the 34 items in question would be subject to the Document 782 ex post facto notification procedure rather than the stricter 471 procedure. [Footnote in the source text.]

for copper wire specifically to be changed from embargo to quantitative control.

(4) If the attempt to develop a list of items for liberalized exceptions treatment is not successful, agreement should then be sought for a more general interim agreement as follows:

a. The United States would seek agreement that the participating countries:

i) will be discriminating in their use of the exceptions procedures so as to avoid vitiating the central purpose of the multilateral China controls pending definitive discussion of the problem;
ii) will permit only limited quantities of items to be shipped and these to be judged on a case-by-case basis; and
iii) will have regard to the contribution which the item may make to the military strength of Communist China in accordance with a strict interpretation of the CHINCOM exceptions procedures.

5. In return for agreement by other participating countries either on a specific list or on the more general formula set forth in paragraph 4, the United States would agree:

(a) to participate in a CG meeting by the end of the year to seek a definitive settlement of differences between the United States and other participating countries on the China trade control problem;

(b) not to object to reasonable shipments of items appearing on the agreed list provided for in paragraph 2 or alternatively, to exceptions cases meeting the standards outlined in paragraph 4. (In fulfilling the latter commitment relating to paragraph 4 the United States as a general rule would refrain from raising objections to Document 782 cases unless there is clear evidence that the above-listed standards are not being met.)

Herbert V. Prochnow[6]
Deputy Under Secretary
for Economic Affairs

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[6] Printed from a copy that bears this typed signature.

131. Memorandum From the Chairman of the Economic Defense Advisory Committee (DeLany) to the Chairman of the Council on Foreign Economic Policy (Randall) [1]

EDAC D–122/2 *Washington, August 10, 1956.*

SUBJECT

CFEP 501—East-West Trade

REFERENCES

1) Memorandum, same subject, dated August 7, 1956, from Secretary, CFEP, to Chairman, EDAC [2]
2) Memorandum, subject: China Trade Control Problems, from State Department to Chairman, CFEP, dated August 7, 1956 [3]

1. As requested by reference 1) above, the Economic Defense Advisory Committee has reviewed the State Department proposal in reference 2) above. The Japanese List of 19 items mentioned in paragraph 2. (1), ED/EC D–102, is attached as Annex A. [4] A brief definition of the exceptions procedures set forth in COCOM Documents 471 and 782 is attached as Annex B. [5]

2. The Department of Agriculture, the International Cooperation Administration and the Battle Act Office (EDAC Chairman) concur with the State proposal and recommend its adoption by the CFEP. CIA did not take a position since they do not participate in policy decisions.

3. The Treasury Department nonconcurs with the State Department proposal. The Treasury Department believes it highly unlikely that the negotiations recommended by the State Department would result in an interim agreement before the end of November, by which time a new U.S. policy can be expected. The Treasury Department further believes that, if an interim agreement were achieved, it would result in official U.S. blessing to a further "watering down" of the controls. Treasury recommends that the present policy continue to apply for the interim period and that the U.S. continue to oppose extended use of CHINCOM exceptions.

4. The Department of Commerce, which is generally sympathetic to the State proposal, nonconcurs in that proposal. The Department of Commerce recommends that the statement of the problem be revised and that certain substantive changes be made in the

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[1] Source: Eisenhower Library, CFEP Records. Secret.

[2] In this memorandum, Randall requested DeLany to have EDAC comments on the Department of State proposals regarding China trade controls. (*Ibid.*)

[3] *Supra.*

[4] Dated June 14, not printed.

[5] Not printed.

proposed U.S. interim position. These changes are set forth in Annex C (attached).[6] These changes are suggested in order (1) to clarify the statement of the problem to which the interim position is directed; (2) to provide greater leeway in developing a list of items for which increased exceptions might be made; (3) to make more specific the undertaking of the negotiators to seek support for the U.S. objectives agreed earlier by the CFEP; and with respect to copper, to make quantitative control a retreat position and to use therewith a specific global quota proposal of 10,000 tons; and (4) to clarify the procedural steps whereby the final U.S. position would be determined and introduced into CHINCOM. Commerce would require the State Department to hold all "discussions" ad referendum and, on completion, seek CFEP and NSC approval of a U.S. interim position to be placed before CHINCOM "at the earliest opportunity."

5. The Defense Department nonconcurs in the approach proposed by State and recommends that an aide-mémoire (draft attached as Annex D)[6] be dispatched at high government levels to CHINCOM members (except Japan) designed to gain agreement:

a. To refer the China trade controls to the North Atlantic Council in line with the 5 May 1956 agreement "to strengthen economic cooperation between member countries, to seek to eliminate conflict in their international economic policies and to promote conditions of stability and well-being"; or

b. To an alternative new proposal that the U.S. is willing to discuss with the other Participating Countries a uniform COCOM/CHINCOM List under altogether new criteria for international controls; and

c. In either case to reduce the current rate of CHINCOM exceptions pending a resolution.

If the foregoing recommendation is accepted as a U.S. course of action, the Defense Department would agree to the State Department proposal for an interim policy.[7]

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[6] Not printed.

[7] On August 10, Cullen forwarded the EDAC paper of August 10 and the Department of State paper of August 7 to the CFEP as CFEP 501/12. They were discussed at the Council meeting of August 14; see *infra*.

132. Minutes of the 46th Meeting of the Council on Foreign Economic Policy, Executive Office Building, Washington, August 14, 1956 [1]

PRESENT

Clarence B. Randall, Special Assistant to the President—Chairman
Herbert V. Prochnow, Deputy Under Secretary of State
Sinclair Weeks, Secretary of Commerce
True D. Morse, Under Secretary of Agriculture
Dennis A. FitzGerald, Deputy Director, International Cooperation Admn.
Reuben B. Robertson, Jr., Deputy Secretary of Defense
Arthur S. Flemming, Director, Office of Defense Mobilization
Percival F. Brundage, Director, Bureau of the Budget
Dillon Anderson, Special Assistant to the President
Gabriel Hauge, Administrative Assistant to the President
Joseph S. Davis, Member, Council of Economic Advisers
Felix E. Wormser, Assistant Secretary of the Interior
Andrew N. Overby, Assistant Secretary of the Treasury
Paul H. Cullen, Secretary, Council on Foreign Economic Policy, and their assistants

[Here follows discussion of the first three agenda items on unrelated subjects.]

IV. CFEP 501—East West Trade.

1. The Council considered the recommendation of the Secretary of State for an interim policy on the China trade control problem contained in CFEP 501/12 dated August 10, 1956.

2. The Council approved the following interim course of action:

a. Settlement should be made with the Japanese on the basis of adding to the original United States list of 81 items as many of the 19 items covered by the 782 procedure as necessary, the Japanese thereafter to support the United States in efforts to gain acceptance of this list by other participating countries.

b. The list as amended should be proposed to other participating countries (the United Kingdom to be approached last) as a basis for United States non-objection to CHINCOM exceptions. It should be understood that the list might be expanded in the course of discussions with other countries by an additional limited number of items subject to the 782 procedure (in the range of ten to twenty items of interest to countries other than Japan) to permit the development of an agreed list. [2]

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[1] Source: Eisenhower Library, CFEP Records. Secret.

[2] It should be noted that certain of the items appearing on the original list of 81 (about 34 items) are subject to the Document 471 prior consultation, quid pro quo justification. These items are of significantly less strategic importance than is the case with Document 471 items generally. In order to preserve the effectiveness of the Document 471 exceptions procedure, an adjustment should be made in CHINCOM (assuming agreement on a liberalized exceptions list) to make clear that the 34 items

c. The negotiating objectives set forth in paragraph 3(b) of the CFEP report of April 6, 1956 should not be considered as a sine qua non for purposes of the interim policy, but instead as objectives to be pursued on their merits at the most propitious time; the objective for copper wire specifically to be changed from embargo to quantitative control.

d. If the attempt to develop a list of items for liberalized exceptions treatment is not successful, agreement should then be sought for a more general interim agreement as follows:

(1) The United States would seek agreement that the participating countries:

(a) will be discriminating in their use of the exceptions procedures so as to avoid vitiating the central purpose of the multilateral China controls pending definitive discussion of the problem;
(b) will permit only limited quantities of items to be shipped and these to be judged on a case-by-case basis; and
(c) will have regard to the contribution which the item may make to the military strength of Communist China in accordance with a strict interpretation of the CHINCOM exceptions procedures

e. In return for agreement by other participating countries either on a specific list or on the more general formula set forth in subparagraph d, the United States would agree:

(1) to participate in a CG meeting by the end of the year to seek a definitive settlement of differences between the United States and other participating countries on the China trade control problem;

(2) not to object to reasonable shipments of items appearing on the agreed list provided for in subparagraph b or alternatively, to exceptions cases meeting the standards outlined in subparagraph d. (In fulfilling the latter commitment relating to subparagraph d the United States as a general rule would refrain from raising objections to Document 782 cases unless there is clear evidence that the above-listed standards are not being met.)

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in question would be subject to the Document 782 ex post facto notification procedure rather than the stricter 471 procedure. [Footnote in the source text.]

3. This recommendation will be submitted to the NSC for approval.[3]

Paul H. Cullen
Lt. Col., USA
Secretary

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[3] In a memorandum to Dillon Anderson, August 17, Randall explained that he met with Eisenhower that afternoon concerning Dulles' recommendation for an interim policy on the China trade control problem that the CFEP approved on August 14. Randall noted that he "explained to the President that since a decision was needed prior to the CHINCOM meeting scheduled for August 27, we had agreed that the CFEP recommendation should be submitted to him rather than to wait for the next meeting of the NSC which is expected to be held on August 30.

"The President approved the CFEP recommendation and asked me to advise you of his decision." (Department of State, S/S–NSC Files: Lot 62 D 1, Communist China: Multilateral Export Controls on Trade with)

Lay forwarded Randall's August 17 memorandum to Dillon as well as the approved interim policy on China trade control, CFEP 501/12, to the NSC on August 17, under cover of a brief memorandum. (*Ibid.*)

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133. Instruction From the Department of State to Certain Diplomatic Missions[1]

CA–2286 *Washington, September 11, 1956.*

SUBJECT

China Trade Controls Problem

1. Following the Eden–Eisenhower talks early this year the U.S. undertook a review of the special China trade controls to determine whether some relaxation in these controls could be agreed while at the same time retaining a substantial and meaningful CHINCOM differential. The interested Washington agencies studied the lists of items proposed for deletion by the UK and Japan, examining both the strategic considerations as viewed by the U.S. and the commercial interests of the participating countries (PC's).

2. An initial position was discussed with the UK and Japan in early May, but the proposals made by the U.S. at that time proved

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[1] Source: Department of State, Central Files, 493.009/9–1156. Confidential. Drafted by Knoll and approved by Kalijarvi. Sent to Ankara, Athens, Bern, Bonn, Brussels, Copenhagen, Geneva (for Johnson), The Hague, Helsinki, Hong Kong, Lisbon, London, Luxembourg, Paris (pass to USRO/ST), Oslo, Ottawa, Rome, Stockholm, Tokyo, and Vienna.

unacceptable. A subsequent review of the problem has resulted in a new interim U.S. position recently approved at the highest levels within the U.S. Government.

3. In carrying out this continuing study of the China control problem the U.S. has had the following basic considerations in mind:

a. The maintenance of effective CHINCOM controls is important to current U.S. foreign policy.

b. From the strategic and the U.S. domestic political points of view, no substantial reduction in CHINCOM controls should occur at this time.

c. From an economic standpoint, it is only with respect to Japan—and then only to a moderate degree—that it can be estimated that a relaxation of CHINCOM controls would result in an expansion of a Free World country's foreign trade significant in proportion to the present total of such trade.

d. Pressures both political and commercial are nevertheless being exerted on participating governments to achieve a major reduction of CHINCOM controls; in order to prevent serious deterioration of multilateral cooperation resulting from these pressures, the U.S. would be willing to concur in some relaxation in CHINCOM controls provided that

(i) a substantial CHINCOM differential control is retained;

(ii) the current deterioration of the CHINCOM control system is stopped and the control system is thereby increased in effectiveness;

(iii) the over-all CG/COCOM/CHINCOM activity is strengthened materially to the extent determined by the U.S. Government to be practicable.

e. Negotiations, both bilateral and CG/CHINCOM, should be conducted in such manner as to assure a reasonable degree of relief for Japan and some participation in trade by the other PC's without appearing to show any obvious preference for any PC.

4. Pending development of a more long-term policy by the U.S. on the China trade control question now being considered by interested Washington agencies, bilateral representations will be made to all the CHINCOM countries regarding the following interim course of action:

a. Agreement will be sought for a general interim policy as follows:

The PC's

(i) will be discriminating in their use of the exceptions procedures so as to avoid vitiating the central purpose of the multilateral China controls pending definitive discussion of the problem;

(ii) will permit only limited quantities of Document 782 items to be shipped and those to be judged on a case-by-case basis; and

(iii) will have regard for the contribution which the item may make to the military strength of Communist China in accordance with a strict interpretation of the CHINCOM exceptions procedures.

b. In return for agreement by the other PC's on the general formula set forth in paragraph 4 (a) above, the U.S. would agree

(i) to participate in a CG meeting by the end of the year to seek a definitive settlement of differences between the U.S. and other PC's on the China trade control problem;

(ii) not to object to exceptions cases meeting the standards outlined in paragraph 4 (a). In fulfilling the latter commitment the U.S. as a general rule would refrain from raising objections to Document 782 cases unless there is clear evidence that the standards listed in paragraph 4 (a) are not being met. Cases under other exceptions procedures would be considered on their merits and in accordance with existing criteria.

c. The negotiating objectives in other areas (e.g. copper wire, shipping, etc.) discussed earlier with the U.K. and Japan should not be considered as sine qua non for purposes of interim policy, but instead as objectives to be pursued on their merits at the most propitious time; the objective for copper wire specifically to be changed from embargo to quantitative control.

5. In order to control the consistency of the bilateral discussions they will be conducted by the Department in Washington beginning this week. USDel and the Missions will be advised of the progress of these talks.

6. The addressee posts (CHINCOM countries only) may use the substance of the above as background in any informal discussions they may have with the governments concerned. Similarly USDel may advise the Chairman of CHINCOM of the U.S. position and may inform the other Del's as appropriate.

Dulles

134. Memorandum of a Conversation, Department of State, Washington, September 13, 1956[1]

SUBJECT

Japanese Government Reaction to U.S. Proposal on Interim Maintenance of CHINCOM Controls

PARTICIPANTS

Mr. Shima, Minister, Japanese Embassy
Mr. Sato, Commercial Counselor, Japanese Embassy
Mr. Suzuki, Second Secretary, Japanese Embassy
Mr. Jones, Deputy Assistant Secretary, FE
Mr. Ockey, NA
Mr. Knoll, ECD
Mr. Tucker, CA

Mr. Shima informed Mr. Jones that he had received instructions from his government responding to the U.S. Government proposals for interim maintenance of the CHINCOM controls which Mr. Jones had transmitted to Mr. Shima on September 8 preceding.[2] Mr. Shima specified that the Japanese Government's reaction is covered under four points.

1. The Japanese Government is prepared to agree to the U.S. proposal for interim maintenance of the CHINCOM controls with the following understandings:

> A) That the U.S. proposal covers only the period from the present to the convening of the Consultative Group next December. If a Consultative Group meeting is not held at that time, the Japanese Government would feel it necessary to reconsider its position.
>
> B) That in the event that the governments of other participating countries do not agree to the U.S. proposal and insist upon further relaxation of the CHINCOM controls for the interim by use of the exceptions procedures, the Japanese Government would not be bound by its agreement to the U.S. proposal.
>
> C) That any commodities to be exported to Communist China under the Document 471 and 450[3] procedures would be authorized in CHINCOM only on a case-by-case basis and in strict accord with existing procedures.

2. Japan is willing to support the U.S. position on the need for uniformity in compliance with the CHINCOM controls and the desirability of effective multilateral continuance of the controls.

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[1] Source: Department of State, Central Files, 493.009/9–1356. Secret. Drafted by Tucker.

[2] A memorandum of that conversation, drafted by Ockey, is *ibid.*, 493.009/9–856.

[3] CHINCOM Document 450 concerned prior notification procedures.

3. Japanese agreement is subject to the proviso that if the U.S. should increase the scope or the latitude permitted in its present interim position, the Japanese Government would expect to receive the same benefits as might be extended to any other government.

4. The Japanese Government wishes it understood that, even after the U.S. interim proposal may be "formally adopted by CHINCOM", if other participating countries should not effectively conform to the proposal the Japanese Government would have to reconsider its own position in relation to the commodities concerned.

Mr. Jones expressed his appreciation of the Japanese Government's support and particularly of the prompt reply made to the U.S. proposal which should be of considerable aid in obtaining general agreement. Mr. Jones confirmed that the U.S. Government accepts the conditions made by the Japanese Government as a part of its commitment.

Mr. Tucker mentioned that Minister Shima had referred to the "formal adoption" of the interim U.S. proposal and Minister Shima confirmed that it had been his impression that the U.S. proposal would be presented to CHINCOM. Mr. Tucker, with Mr. Knoll's concurrence, explained to Mr. Shima that the U.S. hopes to achieve unanimity of participating countries by a series of informal bilateral understandings with each of these countries. No formal presentation to CHINCOM is contemplated.

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135. Telegram From the Department of State to the Embassy in the United Kingdom [1]

Washington, September 14, 1956—6:06 p.m.

1915. Excon. a) CA-2286,[2] b) Circular 191,[3] c) Paris 1166.[4] Kalijarvi informed Coulson US interim proposal along lines ref (a)

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[1] Source: Department of State, Central Files, 493.009/9–1056. Confidential. Drafted by Knoll; approved by Kalijarvi; and repeated to Paris, Bonn, and Tokyo.

[2] Document 133.

[3] Circular telegram 191, September 11, sent to the diplomatic missions in all of the Participating Countries, noted: "Department initiating bilateral discussions CHINCOM PC's September 12 interim handling China exceptions pending definitive settlement problem at December CG meeting." (Department of State, Central Files, 493.509/9–1156)

[4] Dated September 10, it reported that the French Delegate to CHINCOM remarked that day that France, for the time being, would not follow the lead of the United Kingdom and the Federal Republic of Germany in licensing prior consultation items to China. (*Ibid.*, 493.009/9–1056)

September 12. Cited UK actions in recent tractor-Land Rover exception and pending tractor request as type cases causing erosion and deterioration multilateral controls thereby making difficult consideration satisfactory long-term solution problem. Stated US proposal made in effort check current trend during interim period. Coulson after restating briefly UK position China controls expressed interest US proposal which he transmitting HMG for consideration.

Department requests Ambassador his discretion and at appropriate time before firm HMG decision reached discuss US proposal with Foreign Minister. May refer French action reftel (c) and fact Japan has agreed . . . . US feels proposal will be acceptable other PC's if UK agrees and in particular does not continue resort unjustified use Doc 471. (UK announcement it has decided not license or will defer decision license pending tractor case would be significant gesture on UK part indicating willingness cooperate.) Should point out other PC's—e.g. Germany and Italy—have cited UK actions as basis for their making similar moves at variance with existing procedures, criteria and established precedents. Other PC's such as Japan which have exercised restraint in making exceptions have complained UK actions have placed them at competitive disadvantage China trade.

US appreciates political and commercial pressures at work in UK and HMG desire avoid difficult domestic issue though possibly it less difficult while UK so preoccupied with critical Suez problem. However view vital interest and responsibility US in Far East security we consider complete breakdown CHINCOM and COCOM control system and damage to US position and prestige in Far East would be high price to be payed by western interests for marginal commercial value of strategic trade with Communist China by some nations.[5]

Dulles

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[5] In telegram 1529 from London, September 17, the Embassy reported that it discussed the points contained in telegram 1915 with a senior official in the British Foreign Office. The official noted that the "extreme political pressure" that was continually on British Ministers for expansion of the China trade "would make acceptance very difficult." (*Ibid.*, 493.009/9–1756)

Telegram 2012 to London, September 18, reads in part: "While sympathetic political pressures in UK US cannot concur UK's liberal interpretations various CHINCOM exceptions procedures. By such interpretations substance CHINCOM control would be removed completely leaving only empty and meaningless form and would also have adverse effect on COCOM procedures as well." (*Ibid.*)

136. Progress Report Prepared in the Department of State[1]

Washington, September 27, 1956.

SUBJECT

Multilateral Export Controls on Trade with Communist China

REFERENCES

A. NSC Action No. 1540[2]
B. Memo for NSC from Executive Secretary, subject: "Multilateral Export Controls on Trade with Communist China", dated August 17, 1956[3]

Trade Controls Towards Communist China

1. The Department was unsuccessful in discussions with the UK and Japan in obtaining their support for the policy authorized in NSC Action No. 1540. For this reason additional negotiating authority was requested for further discussions with the other Participating Countries (PC's)—CFEP 501/12 of August 7, 1956. The CFEP approved the Department's recommendations which in turn were approved by the President.

2. In accordance with the agreed interim policy, discussions were resumed with the Japanese Embassy on August 20 to seek agreement on a specific list of items for liberalized exceptions treatment. Japanese consideration of this new proposal took a longer time than had been anticipated. Informal advice to our Embassy in Tokyo was that the situation had changed since May when Japan had submitted its counter-proposal (on which the new US proposal made a compromise offer) and that our proposal probably would not be acceptable to Japan. In addition, during the last few weeks the situation in CHINCOM has continued to deteriorate further as a result of several large exceptions cases under the Doc. 471 procedure (prior consultation, quid pro quo justification). Late in July the British licensed shipments of heavy tractors and Land Rovers over our objections and in the face of the informal unanimity "rule" under which PC's have refrained from making exceptional Doc. 471 shipments to Communist China which one or more of the PC's have opposed. Germany and Italy have since been using the UK cases as precedents for similar action.

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[1] Source: Department of State, Central Files, 493.009/9–2756. Secret. Forwarded to the National Security Council under cover of a memorandum from Dulles to Lay, September 27. Another copy of this progress report is *ibid.*, S/S–NSC Files: Lot 62 D 1, Communist China: Multilateral Export Controls on Trade with.

[2] See footnote 14, Document 113.

[3] See footnote 3, Document 132.

3. In view of the status of the situation as outlined above, the Department considered it important that bilateral discussions regarding the interim policy be initiated with the other PC's at the earliest possible date. Since we had been unable to reach agreement with the Japanese on the first alternative within a reasonable time and since events were quickly overtaking the US position, the Department determined, consistent with its negotiating authority, that its discussions with the other PC's should be along the lines of the more general formula outlined in paragraphs 2(d) and (e) of Mr. Randall's memorandum of August 16 (Reference B). These discussions were held on September 8 with the Japanese Embassy and on September 12 with the Embassies of the other PC's. All of the Embassies agreed to inform us of their views as soon as received.

4. To date we have been advised that our proposal is acceptable to Japan on the understanding that it will be accepted by the other PC's as well. In connection with our discussions with the UK we have requested the American Ambassador in London to make additional representations to the British Foreign Minister. (Copies of communications with the field and memoranda of conversation have been made available to the interested agencies through established channels.)

5. As a further point, there has been some indication (still difficult to evaluate) from our Embassy in Paris that the French Government, for the time being, will not follow the UK and German lead in licensing prior-consultation items to Communist China and even had stopped licensing Doc. 782 and certain unlisted items. This position did not represent a change in the basic French attitude toward the China differential but rather the Foreign Minister's desire to follow a policy of "absolute cooperation" with the US during the Suez crisis. An earlier report stated that the British had agreed with the French that, because of the Suez problem, this was not the proper time to press the US for action on China controls. It is not clear whether either France or the UK will request or expect some special assistance from the US on Suez in return for what they consider unusual restraint in the China trade controls area.

6. The Department will keep the Council advised of the status of the discussions with the other PC's concerning China trade controls.

Other Negotiating Objectives

7. The course of action approved August 17 noted that the additional negotiating objectives whose achievement was designated in NSC Action No. 1540 as a sine qua non for any relaxation in the US position in China trade controls should no longer be so regarded,

but should be pursued on their merits at the most propitious time. The objective for copper wire specifically was changed from embargo to quantitative control. Progress on the most specific of these objectives may be briefly summarized.

8. With respect to the objective of working toward a closer coordination of the Consultative Group and the North Atlantic Treaty Organization in the field of East-West trade controls and related matter, this aspect has been noted in the US responses to the NATO Questionnaire which was circulated by the three Foreign Ministers who were asked by the North Atlantic Council to look into the appropriate role for NATO in non-military fields and to report to the Ministerial Meeting in December. The US response specifically states that " . . . [4] NATO should give continuing attention to concentrating economic strategy vis-à-vis the Soviet bloc and, in particular to the maintenance of common policies on the COCOM–CHINCOM strategic trade controls." This objective is also being included as an element in the review of economic defense policy by the EDAC pursuant to the CFEP decision of July 31, 1956.

9. With respect to the embargo of boron materials, the US proposal has been submitted to COCOM and supporting bilateral negotiations have been undertaken preparatory to consideration by the Committee. We have received a large measure of acceptance for our proposals from most PC's. Methods of relieving the dependence by Turkey upon sales of such materials to the Soviet bloc are being pursued.

10. With respect to copper wire, as soon as inter-agency agreement can be reached upon the quantitative control objective to be sought for copper wire, such a proposal will be made to the UK and subsequently to the other PC's.

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[4] Ellipsis in the source text.

137. Letter From the Under Secretary of State (Hoover) to the Chairman of the Council on Foreign Economic Policy (Randall)[1]

Washington, October 22, 1956.

Dear Clarence: As I indicated to you on October 15,[2] the Department considers it unwise to press forward now with a decision as to United States policy on the China trade control question. My reasons for this conclusion are as follows:

1. The United States has not yet received answers from several CHINCOM participating countries as to their position on our proposals for an interim policy to be followed pending a Consultative Group meeting. Our willingness to participate in such a meeting by the end of the year was made contingent upon acceptance of our interim proposals by the other participating countries. The British position is not entirely clear; both the United Kingdom position and that of other participating countries may become clear only in practice.
2. We probably have a little flexibility in the timing of a Consultative Group meeting provided we specify a firm date at some point in the near future. An informal report of October 12 indicated that the British might favor a date in February rather than December.[3] It was subsequently confirmed from London that the United Kingdom official position is to favor a December meeting, although the Foreign Office was inclined to oppose a meeting date "if the results were likely to be unfruitful." Under these circumstances the timing of a meeting is subject to some adjustment, and other countries seem inclined to look to the United States to take the lead in suggesting a specific date.
3. As soon as possible and prior to a Consultative Group meeting, we should discuss with the British the possibility of adding copper wire to the quantitative control list.
4. The Suez situation is in an indefinite stage; developments with respect to that situation might have a bearing upon the position we should adopt with respect to negotiations on China trade controls.

I am fully aware of the necessity for determining a position to be taken by the United States in sufficient time that we may enter into bilateral discussions with participating countries prior to a

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[1] Source: Department of State, Central Files, 493.009/10–2256. Confidential. Drafted by Wright and cleared by E, EUR, and FE.

[2] According to a memorandum for the record, drafted by Earl D. Sohm, Hoover's Special Assistant, on October 15, Hoover suggested to Randall that day that the CFEP meeting be cancelled. The memorandum also noted that Dulles and Humphrey supported cancellation, and Randall agreed to cancel the meeting scheduled for October 16. (*Ibid.*, Economic Defense Files: Lot 59 D 439, China Trade Controls 1956)

[3] This informal report was explained to the Department in Polto 796 from Paris, October 12. (*Ibid.*, Central Files, 493.009/10–1256)

Consultative Group meeting. However, in light of the considerations outlined above, I think we may safely refrain from making a final decision on our negotiating policy for several weeks to permit some forward movement on the points I mentioned.[4]

Sincerely yours,

Herbert Hoover, Jr.[5]

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[4] In his reply, November 2, Randall wrote:

"The cables dealing with the CHINCOM matter are quite disturbing. The situation seems to be falling apart rapidly, and I suppose the impact of current events may tend to make our relationships with some members of the Consultative Group more difficult." (*Ibid.*, 460.509/11–256)

[5] Printed from a copy that bears this stamped signature.

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138. Telegram From the Office of the Permanent Representative to the North Atlantic Council to the Department of State[1]

Paris, November 7, 1956—6 p.m.

Polto 1025. Excon. Reference: Topol 732.[2] Informal talks with various delegates indicate cautious attitude regarding implications Hungarian developments and they unwilling speculate effect such developments on COCOM/CHINCOM operations. Indication that such developments have had no restraining influence thus far on attitude key delegates in security control context provided by renewed attack in CHINCOM yesterday against unanimity rule (being reported separately).

In talk with U.S. Delegate, Japanese Delegate expressed what is probably view most delegates when he remarked insofar as COCOM/CHINCOM controls concerned, U.S. domestic political developments more important than events Hungary which too early fully assess; also, that U.S. must act promptly to provide substantial relaxation China controls or COCOM controls themselves will be endangered. . . . view is developments Hungary could strengthen U.S. position on COCOM controls but that this should not detract from urgent need early announcement U.S. position on China controls. Several other delegates yesterday also expressed hope U.S.

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[1] Source: Department of State, Central Files, 460.509/11–756. Confidential. Repeated to London.

[2] Not printed. (*Ibid.*, 460.509/11–556)

would take prompt action regarding settlement China control problem with passing November 6.

Perkins

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139. Telegram From the Department of State to the Embassy in the United Kingdom[1]

Washington, December 11, 1956.

4116. Excon. Embassy requested transmit following personal message from Secretary to Foreign Secretary Lloyd. See immediately preceding message for instructions.[2]

"I am writing regarding your statement of June 6, 1956 setting forth the reasons that Her Majesty's Government do not feel able to re-impose an embargo on copper wire exports to the Soviet Bloc.[3]

"United States Defense and intelligence experts have recently re-examined the problem of copper wire exports to the Soviet Bloc. On the basis of that re-examination, this government continues to believe that copper wire is of such high strategic importance that it should be embargoed to the Soviet Bloc. We believe that this conclusion is strengthened by recent events in which the U.S.S.R. has used and has threatened the use of force in a manner seriously increasing the danger of war not only in Europe but in other parts of the world as well.

"It is now proposed that a team of our . . . experts meet with yours in London to discuss the United States rationale for embargo with a view to reaching agreement on the strategic justification for an upgrading of the controls over the export of copper wire. I would welcome your concurrence to the holding of such talks.

"Following completion of these discussions and your government's reconsideration of the problem, the United States Government would appreciate being advised of your government's position." [4]

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[1] Source: Department of State, Central Files, 460.509/12–1156. Confidential. Drafted by Knoll and Wright; approved and signed by Dulles. Repeated to Paris.

[2] Reference is to telegram 4115 to London, December 11, which contained detailed instructions regarding the proposed bilateral discussions between U.S. and British experts suggested in this message. (*Ibid.*)

[3] Document 121.

Dulles

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[4] On December 22, Harold Caccia delivered Lloyd's reply to Dulles' letter. Lloyd indicated that the United Kingdom still saw no reason to contemplate an embargo of copper wire exports, but remained willing to listen to U.S. representations on the subject. Lloyd suggested that any such discussion should include the broader question of other proposed additions or deletions to the international list. He also suggested that brief statements of the considerations underlying the U.S. and British positions be prepared as a basis for discussions. This letter was transmitted to the Embassy in telegram 4486 to London, December 28. (Department of State, Central Files, 460.509/12–2856)

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140. Instruction From the Department of State to Certain Diplomatic Missions [1]

CA–5218 *Washington, December 27, 1956.*

SUBJECT

COCOM/CHINCOM–Trade Controls

Excon. Reference: CA–2286, September 11, 1956. [2]

1. The interested Washington agencies have reviewed the question as to what action the United States should take in the light of present circumstances (particularly the Near Eastern and Hungarian situations) with respect to multilateral strategic trade controls. The course of action outlined below has been approved by the Economic Defense Advisory Committee. [3]

Discussion

2. The United States, on September 12, 1956, proposed to other participating countries (PC's), an interim course of action with respect to China trade controls and, conditional upon unanimous

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[1] Source: Department of State, Central Files, 493.009/12–2756. Confidential. Drafted by Knoll and Wright and approved by Wright. Sent to Ankara, Athens, Bern, Bonn, Brussels, Copenhagen, Geneva (for Johnson), The Hague, Helsinki, Hong Kong, Lisbon, London, Luxembourg, Paris (pass USRO/ST), Oslo, Ottawa, Rome, Stockholm, Tokyo, and Vienna.

[2] Document 133.

[3] The action of the EDAC was summarized in a memorandum of December 19 from Wright to Kalijarvi, with attachments. (Department of State, Central Files, 493.009/12–1956)

acceptance of the United States proposal, committed the United States Government to participate in a Consultative Group (CG) meeting in December 1956 to discuss a definitive solution of the problem created by pressures from most of the other PC's for reduction of the CHINCOM controls. Although the majority of PC's responses were prompt and affirmative, two responses, from the United Kingdom and Norway, must be considered to be equivocal. Moreover, a number of the PC's have utilized the exceptions procedure to such an extent that not only has the U.S. interim proposal for restraint in this respect not been met, but there is ground for belief that the general effectiveness of the CHINCOM controls has been seriously endangered. When this lack of restraint was called to the attention of Germany, in connection with an important exception case, the German response was to the effect that the U.S. had failed to call a CG meeting and consequently the interim policy was regarded by Germany as not being in effect.

3. The new situation created by Russian actions in Eastern Europe and the Near East, together with clear evidence of Communist Chinese support for Russian aggressiveness, may provide an opportunity for the U.S. to take the lead in revitalizing the multilateral control structure.[4] At the same time, it is uncertain to what extent the recent UK-French differences with the U.S. may affect the receptivity of those countries to U.S. views on strategic trade controls. The U.S. Delegation to CHINCOM (USDel) has recommended that if it is decided not to hold a CG meeting before the end of the year because of priority of other high level diplomatic negotiations, further bilateral discussions should be held to emphasize to other PC's the political reasons making desirable a deferral of a CG meeting and to attempt to forestall further deterioration in the CHINCOM operations.

Action Requested

4. In light of the circumstances outlined above it has been decided that high level bilateral discussions with the COCOM/ CHINCOM PC's should be held on the basis of the attached proposed Note in order to ascertain the extent to which the views of the other PC's are in agreement with the views of the United States

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[4] Recent reports indicate uncertainty as to whether other PC's agree with the U.S. appraisal of the current situation. While unwilling to speculate upon the effect of Hungarian developments on COCOM/CHINCOM operations, certain delegates have not restrained their opposition to the existing CHINCOM controls level. The U.K. has stated that a CG meeting could not be fruitful at this time in view of the international situation, and that France agrees with this (confirmed by the CG Chairman). Other countries have deplored U.S. failure to call a CG meeting, although not taking the initiative to call a meeting themselves. [Footnote in the source text.]

namely that prompt action should be taken for an overall tightening of COCOM/CHINCOM controls either at an early CG meeting, or within the COCOM/CHINCOM organization. Accordingly, the Embassies in the European COCOM/CHINCOM countries are requested to present an appropriate form of the attached Note (Attachment A) to the respective governments. (The discussion with Japan will be held by the Department in Washington with the Japanese Embassy.) USDEL may informally advise the COCOM/CHINCOM Chairman of the substance of the U.S. representations.

5. The Note at Attachment A refers to the excessive use of CHINCOM exceptions, in particular by certain PC's, and to the desirability of imposing a more effective limitation on the use of the CHINCOM exceptions procedures. Attachment B includes a general analysis of . . . exceptions cases. Attachment C[5] is a table of all CHINCOM exception cases (by value) . . . . We are aware of the differences of viewpoint between the US and some PC's on the strategic value of items covered by exceptions. However, Embassies should, as appropriate, draw upon both of these attachments for supplemental material on CHINCOM exceptions and may present comments either orally or in writing. It is requested that the following Embassies make specific references as indicated below:

[Here follow specific instructions for the Embassies in Bonn, Brussels, London, Paris, Rome, and Tokyo. The instructions referred to particular strategic items to which each of those respective countries had applied exceptions procedures; the Department requested the respective Embassies to "express particular concern" with those exceptions cases.]

6. For the Embassies' information, the US has proposed bilateral talks between US and UK defense experts for the purpose of reaching agreement on the strategic justification for an upgrading of the controls over copper wire as a preliminary to US proposals in COCOM. It is hoped that these discussions will be initiated shortly. If the question is raised, the Embassies may state that the US objective is the embargo of all types of copper wire and cable and that the US hopes other PC's will restrict the licensing of these commodities pending COCOM resolution of US proposals to upgrade the item.

7. If the Embassies are requested to clarify the intent of the reference in the Note to a curtailment of shipments of IL II items, it may be indicated that the US considers (a) PC's should use IL II quotas sparingly, and (b) shipments of items subject to 3(d) control should be made only in accordance with a strict application of the 3(d) requirements . . . .

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[5] Neither Attachment B nor C is printed.

8. The CG meeting referred to in the final paragraph of the Note would be a meeting for the purpose of dealing primarily with the three specific proposals included in the Note, but it is not intended that it would consider proposals for a definitive settlement of the CHINCOM controls.

9. The respective Embassies should obtain written statements of the views of the respective governments and forward them promptly to the Department together with reports of the Embassies discussions and their comments thereon as promptly as possible in view of a February 1 deadline for EDAC consideration of the issues relating to a possible CG meeting.

Dulles

Attachment A

PROPOSED NOTE

The Embassy has the honor to refer to conversations held in September of this year between the Department of State and your Embassy in Washington, in which the U.S. Government made certain proposals for restraint in the use of the China Committee (CHINCOM) exceptions procedures. It was further indicated that if all the participating countries accepted these proposals as a basis for handling CHINCOM exceptions during the remainder of the year, the U.S. for its part would be willing to participate in a Consultative Group (CG) meeting before the end of the year. Although most of the Participating Countries (PC's) have now accepted the U.S. proposals for the interim handling of CHINCOM exceptions, certain participating countries did not, and in practice the use of the exceptions procedures by a few PC's has increased beyond reasonable expectations. Most of the PC's have indicated a desire for a CG meeting to deal with the question of the CHINCOM controls although not necessarily urging a meeting by the end of the year.

However, since the time of the September conversations the international situation has drastically altered. The U.S.S.R. has used or threatened force in a manner seriously increasing the danger of war both in Eastern Europe and the Near East. The Chinese Communists have supported these Soviet moves. It is the considered view of this Government that the possibility of aggressive or intensified subversive action by the Communist bloc in the Far East has been significantly increased by these developments.

In these circumstances, the U.S. believes that efforts to strengthen the free world's defenses must be intensified, and in particular that an overall tightening of COCOM/CHINCOM controls is an essential step. Specifically, the U.S. considers that action should be taken promptly to bring about:

(a) An effective limiting of the use of the CHINCOM exceptions procedures pending a CG meeting at a later date when world conditions warrant a definitive settlement of the China trade controls problem;

(b) A sharp curtailment of shipments of copper wire to the European Soviet bloc;

(c) A curtailment of shipments of all items under I/L II quota control, including those items for which quotas have not been fixed.

If other PC's agree with the U.S. appraisal of the situation, the U.S. is prepared to participate in an early CG meeting in order to attain these objectives unless the desired tightening of controls can be achieved within the COCOM/CHINCOM organizations.

The Embassy requests a statement of the views of the Government of———to the proposals outlined in this Note.

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141. Memorandum From the Chairman of the Council on Foreign Economic Policy (Randall) to the Chairman of the Economic Defense Advisory Committee (DeLany)[1]

Washington, January 4, 1957.

Upon my return from my Pacific trip,[2] I find your memorandum of December 20[3] advising that the Economic Defense Advisory Committee has adopted a State Department proposal to hold bilateral discussions with Consultative Group member governments with the objective of an overall tightening of multilateral controls, offering participation in an early CG meeting if necessary to achieve this objective.

This disturbs me.

In my view, EDAC has thus taken a substantive position which, in my judgment, lies beyond its frame of reference.

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[1] Source: Department of State, Economic Defense Files: Lot 64 D 234, Policy Review Papers—NSC 5704/1. Secret.

[2] Randall made a trip to several Asian countries in December 1956 to discuss Far Eastern economic issues with officials serving in the area. Documentation on his trip is in Washington National Records Center, ICA Director's Files: FRC 61 A 32, Box 314, Randall folder.

[3] Not printed. (*Ibid.*, Box 312, Trade/East-West)

Discussions of this subject, initiated before the CFEP, had for their purpose the re-examination of the question of whether or not the China differential should be reduced, or even perhaps eliminated. EDAC has foreclosed that by adopting the State Department proposal that bilateral discussion should go forward on the hypothesis that there should be no change in the differential, and that the current exceptions policy should be tightened.

The reason why I am disturbed at the action taken by EDAC is that the President has made it quite clear to me, and to members of the National Security Council, that he believes that controls over trade with the Communist countries should be somewhat liberalized rather than tightened.

I recognize, however, that because of my absence, you were unable to consult with me at the time of the EDAC meeting, and that the viewpoint I am here expressing was not available either to you or to the membership, so I do not ask that what you did be rescinded.

It does seem to me, however, most urgent that EDAC proceed promptly to consider the formulation of an over-all economic defense policy, pursuant to the request made earlier by CFEP. Surely such a policy should be available in advance of the expected CG meeting for the guidance of those who will there represent the United States.

I shall be prepared to call a meeting of the CFEP for the consideration of the recommendations of EDAC for such an overall economic defense policy as soon as they are ready. In view of the fact that a CG meeting is expected early this year, this policy should be submitted to the CFEP by January 31, 1957.

In case it is impossible for EDAC to arrive at consensus, you may submit the matter to the CFEP with majority and dissenting viewpoints.[4]

CBR

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[4] In his memorandum to Randall of January 8, DeLany replied in part as follows: "Your memorandum will be given EDAC distribution, inviting particular attention to that paragraph which refers to liberalization of controls towards Communist countries and to the paragraph expressing your desire to have the recommendation of EDAC for an overall economic defense policy by 31 January 1957. Effective work can be accomplished only after the results of the current bilaterals are determined by the responses of other governments. I shall keep you advised of the progress." (*Ibid.*)

142. Minutes of a Meeting of the Economic Defense Advisory Committee, Washington, January 23, 1957, 10 a.m.[1]

EDAC M–55

ATTENDANCE

MDAC
Admiral DeLany, Chairman
Mr. Hale
Mr. Levin
Mr. Kramer, Executive Secretary
Mrs. Lese, Committee Secretary

Agriculture
Mr. Burmeister

. . . .

Commerce
Mr. Smith
Mr. Hockersmith
Mr. George

Defense
Capt. Thorp
Col. Green
Mr. Martino
ODM
Mr. Winant

State
Mr. Kalijarvi
Mr. Wright
Mr. Nelson
Treasury
Mr. Fields
Mr. Pollak
ICA
Mr. Arnold
Mr. Slaght
Mr. J. Tucker

[Here follows a listing of the agenda items.]

1. Review of Executive Committee draft of new overall policy statement. [2]

Decision

EDAC will meet on January 29 to consider the letter of transmittal to the CFEP and to review the draft policy statement as discussed and revised at this meeting.

Discussion

The Chairman opened the meeting with a brief report of his January 16 meeting with Mr. Randall. [3] The high level views expressed in Mr. Randall's memorandum of January 4 [4] (EDAC D–127/1) prompted the Chairman to seek clarification from Mr. Randall. He confirmed that it was not Mr. Randall's intent to inhibit the members in expressing their agencies' views on trade. He also reported that Mr. Randall had called a CFEP meeting for the first week in February to consider the recommendations for an overall economic defense policy (February 7) and expected to receive the EDAC paper on this subject by the designated date of January 31. The Chairman, therefore, expressed the hope that the EDAC members could reach agreement on the paper prepared in the Executive Committee. He suggested a paragraph by paragraph review and invited the members to indicate any changes or adjustments which they felt were warranted.

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[1] Source: Department of State, Economic Defense Files: Lot 59 D 665, EDAC Minutes. Secret.

[2] On January 11, Robert Wright sent a draft paper entitled "Proposed Revised Statement of Policy on Economic Defense" to officers of CA, RA, S/P, DFI, and EE under cover of a memorandum that summarized Randall's request for EDAC recommendations regarding an overall economic defense policy. (*Ibid.*: Lot 64 D 234, Policy Review Papers—NSC 5704/1)

[3] No record of the meeting has been found in Department of State files.

[4] *Supra.*

In response to a request by the Chairman to brief the members on the development of the paper, the Executive Committee Chairman stated that the Executive Committee had attempted to outline a paper which, in the majority view, might be prepared most expeditiously and, as a basis, used the format devised by the CFEP staff in 1955 (CFEP 501/6, Enclosure #4). He explained that the EC had reorganized the paper in several respects with the view to making it more readable and understandable.

The courses of action with respect to China are presented in the last paragraph of the draft paper so that the mechanics of revision would be made easier. He said that it was the intention of the EC to meet this afternoon to draft a memorandum of transmittal from EDAC to CFEP to accompany the paper presently before EDAC. This memorandum will explain any major changes in policy, justify them to the extent considered necessary, and make such qualifications as EDAC deems advisable because of revisions necessitated by the bilaterals. He said the Executive Committee does not offer this paper as a document constituting in all respects the ideas of the member agencies. It does, however, constitute the best efforts of the Executive Committee to agree on a document.

The Chairman suggested that, in view of the deadline, the Group make a concerted effort to agree on a final version of the paper at this meeting. With this objective in mind, the members focused their attention on a paragraph by paragraph review of the draft document before them. Certain agreed changes were made and material, enclosed within brackets, was added to the document to indicate disagreed language supported only by the Department of Commerce.

The Department of State reserved its position on paragraph 21 of the draft paper.[5]

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[5] For text of paragraph 21, see *infra*. At its meeting on January 29, the Economic Defense Advisory Committee adopted the policy statement discussed at the meeting of January 23 and approved its transmittal to the CFEP. (Department of State, Economic Defense Files: Lot 59 D 665, EDAC Minutes) That same day, the EDAC submitted its recommendations for an overall economic defense policy to the CFEP, under cover of a memorandum from DeLany to Randall. (Eisenhower Library, White House Office Files) On January 31, the recommendations were circulated to the Council as CFEP 501/14, under cover of a memorandum by Paul Cullen. (Department of State, Economic Defense Files: Lot 59 D 439, China Trade Controls 1957)

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143. Minutes of the 53d Meeting of the Council on Foreign Economic Policy, Executive Office Building, Washington, February 5, 1957[1]

PRESENT

Clarence B. Randall, Special Assistant to the President—Chairman
Thorsten V. Kalijarvi, Acting Deputy Under Secretary of State
W. Randolph Burgess, Under Secretary of the Treasury
Sinclair Weeks, Secretary of Commerce
True D. Morse, Under Secretary of Agriculture
Thomas P. Pike, Special Assistant to the Secretary of Defense
E. C. Hutchinson, Acting Chief, International Division, Bureau of the Budget
John B. Hollister, Director, International Cooperation Administration
Allen W. Dulles, Director, Central Intelligence Agency
Frederick Winant, Special Assistant, Office of Defense Mobilization
Robert H. Cutler, Special Assistant to the President for National Security Affairs
Joseph S. Davis, Member, Council of Economic Advisers
Gabriel Hauge, Special Assistant to the President
Paul H. Cullen, Secretary, Council on Foreign Economic Policy, and their assistants

I. The Council approved the minutes of January 31, 1957.

II. CFEP 501—East-West Trade.

The Council on Foreign Economic Policy considered the recommendation of the Economic Defense Advisory Committee for an overall economic defense policy, which was distributed to the Council on January 31, 1957 as CFEP 501/14.

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[1] Source: Department of State, Economic Defense Files: Lot 59 D 439, China Trade Controls 1957. Secret.

The basis for CFEP action in this matter was the National Security Council request to the CFEP (NSC Action No. 1292e) to review all aspects of the present United States economic defense policy applicable to trade with the Communist bloc and to submit to the NSC appropriate economic defense policy recommendations.

The Council on Foreign Economic Policy adopted the following economic defense policy statement for consideration of the NSC. There was consensus except that the Department of State took no position on paragraph 21.

UNITED STATES ECONOMIC DEFENSE POLICY

General Policy

1. The continued threat to the security of the free world posed by the Sino-Soviet bloc warrants the application against that bloc of such economic defense measures by the U.S. and by the free world as will retard the growth of the war potential of the bloc and reduce its unity. Our attitude and program must be one which will not increase the possibility of war, but rather one which will keep open paths which might lead to a sounder basis for peace. During this period, the courses we take should be based upon the assumption that interference in the trade between the free world and the Sino-Soviet bloc should take place only where a clear advantage to the free world would accrue from such interference. They should also be based upon the assumption that the maintenance of personal, cultural, and commercial contacts between the free world and the European Soviet bloc may have positive advantages during this period of tension and watchfulness. Our policy should reflect flexibility as between the U.S. and the U.S.S.R. on the one hand and the U.S. and each individual Eastern European country on the other hand.

2. The economic defense program should be framed and administered with full recognition of the fact that the economic defense system of the free world is part of the larger system of military and political alliances and, like them, depends upon the cooperative efforts of the free nations. The United States should support the existing free world collective arrangements in the field of trade controls. Accordingly, in determining the economic defense measures which the United States should adopt and those to be urged on other nations, the impact upon the existing system of economic defense as a whole, and upon the free world military and political alliances, should be taken into account. Similarly, in multilateral military and political discussions, consideration should be given to

the impact of their courses of action upon and support to be derived from the economic defense program.

3. The U.S. should maintain such unilateral controls as will have a significant effect on the growth of the war potential of the Sino-Soviet bloc or will effectively support other U.S. policies (e.g. China policy) or fulfill U.S. legislative requirements.

4. The problems posed for our allies by trade controls should be given appropriate weight in determining the controls which the U.S. should advocate that the free world exercise in its economic relations with the Sino-Soviet bloc.

5. Political conditions generally, and economic conditions in some individual countries, may make substantial intensification of multilateral controls with respect to the European Soviet bloc impractical for the foreseeable future, in the absence of a marked worsening of international tensions. Extensions or reductions of these controls should be proposed or supported, however, whenever justified by new technology, new intelligence or altered evaluation of the significance of particular imports to the Soviet bloc.

6. The controls should be so applied as to support U.S. policy with respect to encouraging and assisting bloc satellites to achieve and maintain national self-determination and independence.

7. The U.S. should avoid, and seek to have other friendly countries avoid, becoming excessively dependent on the Sino-Soviet bloc as a market or as a source of supply.

8. So long as it is considered to be in the U.S. interest, there should continue to be applied against Communist China[2] more severe controls than are applied against the remainder of the Soviet bloc. At such time as it is judged to be in U.S. interest to do so, the controls toward Communist China should be revised.

Courses of Action

9. Seek to maintain the existing multilateral security trade control structure and the control measures developed thereunder, making appropriate and timely adjustments in those measures to reflect changes in bloc vulnerability or to improve cooperation and increase effectiveness.

10. Seek to maintain and, as necessary, extend the bilateral arrangements with other free world countries to obtain support for multilaterally agreed controls.

11. Maintain toward the European Soviet bloc U.S. export controls over multilaterally agreed items and over such other materials, equipment, technology and services as can be so unilaterally

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[2] Communist China as used throughout this paper includes North Korea. [Footnote in the source text.]

controlled by the U.S. as to achieve a worthwhile adverse impact on the war potential of the European Soviet bloc, or can effectively serve other U.S. policy objectives judged by the U.S. control authorities to warrant the use of unilateral controls; and take all appropriate measures as will effectively enforce these controls and prevent their frustration.

12. Approve, as a general rule, for shipment from the U.S. to the European Soviet bloc, commodities not controlled under paragraph 11 above, and, where appropriate, remove the requirement of specific licenses for such shipments to the entire European Soviet bloc.

13. Make appropriate and timely unilateral adjustments and seek appropriate multilateral adjustment in the scope and severity of controls maintained toward selected satellites of the U.S.S.R., as feasible, to encourage and support progress toward national self-determination and independence.

14. Enhance the utility of evaluated intelligence pertaining to economic defense problems.

15. Seek the adoption of effective measures to enforce the agreed scope and severity of the multilateral controls and increase the scope and effectiveness of multilateral exchanges and cooperation in the enforcement field.

16. Seek a close association with NATO and other security alliances and, where feasible, obtain their consideration and advice on appropriate economic security problems.

17. Seek agreement to utilize the multilateral control structure for studies and exchanges of views regarding all Sino-Soviet trade practices which appear to be inimical to the free world.

18. Encourage free world countries to resist Sino-Soviet economic penetration and to avoid excessive dependence on trade with the Sino-Soviet bloc; foster the development of necessary markets and sources of supply within the free world.

19. Administer current U.S. programs, such as economic development, military and other governmental procurement, defense support, stockpiling, disposal of surplus goods and properties, and similar activities, in such a way as to take into appropriate account the objectives of the economic defense program.

20. Maintain the current level of U.S. unilateral export, import and financial controls applied against Communist China.

21. Seek to maintain effective multilateral controls on trade with Communist China at a level above that on trade with the European Soviet bloc. Seek to obtain multilateral agreement on a differential which would embargo the items on International List II (25 items) and on International List III (63 items). The items on the Consolidated China Special List (207 items) should be offered for decontrol except those items which can be justified as being sufficiently

strategic to warrant their addition to the International Lists for control to the European Soviet bloc and embargo to Communist China.

22. Take all appropriate actions effectively to enforce these controls toward Communist China and to prevent their frustration.

In adopting this policy, it was the intention of the Council to effectuate a substantial liberalization of the multilateral controls over trade with Communist China.[3]

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[3] On February 7, Randall forwarded this statement of policy to Cutler, under cover of a memorandum. On February 8, James Lay circulated the statement of policy to the NSC as NSC 5704, "U.S. Economic Defense Policy," under cover of a brief memorandum. (Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5704 Series)

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144. Telegram From the Embassy in the United Kingdom to the Department of State[1]

London, March 1, 1957—3 p.m.

4595. Excon. Reference: CA–5218[2] and Embtel 3697.[3] FonOff handed Embassy today note in reply Embassy's note January 10 re over-all tightening strategic controls E–W trade. Substance of note follows:

"HMG have been disappointed learn US Govt no longer appear contemplate early meeting CG purpose securing definitive settlement China controls problem. Their views on US proposals tightening China and Soviet bloc controls in certain respects, are as follows.

(a) CHINCOM exceptions procedures. HMG have long considered the additional controls on trade with China over and above those on trade with Soviet Union and certain other countries are illogical and ought to be abolished. Recent international events have not caused them modify this view, and they accordingly regret could not see their way accepting US suggestion use of exceptions procedures should be limited pending definitive settlement this question.

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[1] Source: Department of State, Central Files, 493.009/3–157. Confidential. Repeated to Paris (for USRO/ST), Bonn, Tokyo, The Hague, Rome, and Geneva for Johnson.

[2] Document 140.

[3] In this telegram, January 10, the Embassy reported that it delivered a note to the British Government that day regarding China trade controls. (Department of State, Central Files, 460.509/1–1057) The note followed the Department's instructions in CA–5218. The text of the U.S. note of January 10, as well as the text of the British response of March 1, were transmitted to the Department in despatch 2163 from London, March 4. (*Ibid.*, 493.009/3–457)

(b) Copper wire. HMG have taken due note US Government consider there should be sharp curtailment shipments copper wire to Soviet bloc. This question one to which HMG would wish give further study and will communicate with US Government further on subject in due course.

(c) Soviet bloc controls. UK view is controls on E–W trade should be confined to items real strategic importance and not used as weapon of economic warfare. HMG believe present controls are more extensive than strategic considerations require and see no justification in recent events for adding to them. As far as particular question quantitative controls concerned, HMG do not regard items IL–II high strategic importance, and would therefore be unwilling accept general policy reducing quotas.

HMG wish take this opportunity reaffirm great difficulties which exist for them continued operation controls on trade with China additional those applying trade with Soviet bloc. UK economic situation (including recent increased unemployment in certain industries) makes it important for UK concentrate more than ever on promotion exports, and at this particular time pressure Parliamentary and business opinion in favour relaxing controls is especially severe. In HMG's view it not possible defend maintenance China 'differential' on strategic grounds. These additional controls are an unnecessary burden on economies both of UK and her dependent overseas territories, in particular Hong Kong, and HMG are unlikely be able hold the line in maintaining them very much longer."

Whitney

145. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Secretary of State[1]

Washington, March 5, 1957.

SUBJECT

CFEP Review of Economic Defense Policy—NSC 5704

Problem

The problem is to determine the State position in the NSC on a proposed revised statement of economic defense policy (NSC 5704) which, if approved, will replace NSC 152/3 and paragraph 7(c) of NSC 5429/5.

Discussion

1. The current economic defense policy statement (NSC 152/3) was approved in November, 1953; the implementation of the provisions relating to multilateral controls was effected by the 1954 COCOM list review which resulted in a large increase in the China trade control differential through reduction of the COCOM lists. A new review of US policy was undertaken in 1955, but the proposed revision of the policy statement was not finalized by the NSC because of the possible impact on policy of the then forthcoming Geneva Foreign Ministers' Meeting. In July, 1956, the CFEP again reviewed the economic defense program in the light of the international developments which had overtaken the 1955 review. Their study, delayed by the Hungarian and Suez crises, has led to the revised policy statement—NSC 5704.

2. The proposed policy statement provides generally for a continuation of the US and multilateral trade controls as at present except for

(a) provision for adjustments in controls maintained toward selected Soviet satellites to encourage their national self-determination (paragraph 13);
(b) provision for some reduction in the multilateral China trade controls to be accompanied by some increase in multilateral controls on trade with the Soviet bloc (paragraph 21).

3. During the past two years, and especially since the Eden-Eisenhower talks in early 1956, the most serious single problem in

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[1] Source: Department of State, Central Files, 460-509/3–557. Secret. Drafted by Knoll on February 28; concurred in by Elbrick, Timmons, Moline, Lubert O. Sanderhoff of RA, Robertson, Howard Jones, Tucker, Bowie (in draft), and William Leonhart of S/P (in draft).

the economic defense program has been that of the multilateral China trade controls. Until now the US has forestalled all attempts to revise these controls, although they have been seriously weakened by the increased volume of CHINCOM exceptions cases. (Exceptions presented for shipment of embargoed items amounted to more than $79 million in 1956 as compared with $10 million in 1955 and $3 million in 1954.) In recent bilateral discussions with the participating countries (PC's) in January, 1957, we urged an overall tightening of COCOM/CHINCOM controls in view of the changed international situation; however, from reactions received thus far it appears clear that the US will face continued pressure from a majority of the PC's for a relaxation of China trade controls. Since this issue threatens to become divisive with respect to US relations with leading European countries (e.g., the UK and France) and, to a lesser extent, with Japan, an effort should be made to reach an accommodation of the views of the other PC's with those of the US in order to preserve the effectiveness of the controls.

4. The authority provided in paragraph 21 should enable the US to enter into negotiations offering some likelihood of success. However, should the US position outlined in paragraph 21 be unacceptable to the other PC's it will be necessary to have an urgent interagency review of our position to assure final settlement of the China trade controls problem once negotiations are begun.

5. Other agencies are not expected to raise issue with the proposed policy statement.

Recommendation

That you recommend approval by the NSC of the proposed Policy Statement.

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146. Memorandum of Discussion at the 315th Meeting of the National Security Council, Washington, March 6, 1957[1]

[Here follow a paragraph listing the participants at the meeting and item 1.]

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on March 7.

2. *U.S. Economic Defense Policy* (NSC 152/3; NSC 5429/5, paragraph 7–c; NSC Actions Nos. 1292, 1487, 1511 and 1540; Memos for NSC from Executive Secretary, subject: "Multilateral Export Controls on Trade with Communist China", dated April 27 and August 17, 1956; Progress Report, dated September 27, 1956, by the Department of State on "Multilateral Export Controls on Trade with Communist China"; NSC 5704; Memo for NSC from Executive Secretary, subject: "U.S. Economic Defense Policy", dated February 15, 1957 [2])

Mr. Cutler briefly described NSC 5704, the report on U.S. economic defense policy prepared for the National Security Council by the Council on Foreign Economic Policy. As Mr. Randall, the Chairman of the CFEP, was taking his place at the table, Mr. Cutler briefly summarized the views of the NSC Planning Board on NSC 5704, as well as the views of the Joint Chiefs of Staff on the same report. Meanwhile, Mr. Lay had distributed to the members of the Council a tabulation of the situation with respect to multilateral controls which prevailed under present policy (NSC 152/3 and paragraph 7–c of NSC 5429/5) and under the proposed new policy (NSC 5704). (A copy of this tabulation is filed in the minutes of the meeting. [3]) Mr. Cutler then called on Mr. Randall to present NSC 5704.

Mr. Randall briefly summarized the past history of the Council's efforts to evolve a U.S. economic defense policy. He alluded to the extreme difficulty of the problem, and indicated that the Council had assigned it to the CFEP two years ago to complete as a matter of urgency. After a real struggle, NSC 5704 had finally been agreed by all the responsible departments and agencies. The main problem, said Mr. Randall, in developing the new policy was the so-called "China differential". He expressed the hope that everyone would clearly understand that the policy set forth in NSC 5704, if adopted, would constitute a substantial liberalization of existing controls on the trade of the Free World with Communist China. It was essential that the National Security Council be entirely clear on this point. Three main reasons had induced the CFEP to recommend this liberalization of controls on Free World trade with Communist China: The first of these reasons was the current extreme tension between the United States and its European allies with respect to this issue and the advanced deterioration in the existing multilateral control structure. Unless the United States were prepared to move in the direction of liberalizing controls on trade with Communist China, Mr. Randall predicted that the whole multilateral control structure might collapse.

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[2] In this memorandum, Lay informed the NSC that the Department of State approved paragraph 21 as transmitted to the National Security Council in NSC 5704. (Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5704 Series)

[3] Not found in the Eisenhower Library or Department of State files.

The second reason related to the situation of Japan. It was a prime objective of the U.S. Government to see Japan's economic strength and stability increased. Japan bitterly resented the extra controls which were imposed on Japanese trade with Communist China.

The third reason for the move toward liberalizing controls on trade with Communist China was the general policy of the Eisenhower Administration to reduce barriers all around the world.

Following upon these general remarks, Mr. Randall said he wished to invite the Council's attention to certain specific statements in NSC 5704. The first of these, he pointed out, was in paragraph 1 on page 3. The second sentence of this paragraph read as follows: "During this period, the courses we take should be based upon the assumption that interference in the trade between the Free World and the Sino-Soviet bloc should take place only where a clear advantage to the Free World would accrue from such interference." Mr. Randall pointed out that suggestions had been made which would have reversed the assumption set forth in this sentence. However, the sentence was practically identical in content with what had been said in the previous policy (NSC 152/3) except for the introduction of the term "Sino", and accordingly he opposed suggestions for any reversal.

There being no comment, Mr. Randall turned to paragraph 13, on page 6, and recommended to the Council the insertion of the term "European" between the terms "selected" and "satellites".

The Council accepted this suggestion, and Mr. Randall turned to paragraph 15, on page 6, reading as follows: "Seek the adoption of effective measures to enforce the agreed scope and severity of the multilateral controls and increase the scope and effectiveness of multilateral exchanges and cooperation in the enforcement field." Mr. Randall said he had understood that the Planning Board had raised the question as to whether we really "meant business" with regard to this statement—that is, if controls on certain items were relaxed, a real effort would be made to enforce strict controls on whatever agreed items for control remained. Mr. Randall pointed out that in this case, as in the previous one, the old policy (NSC 152/3) had said the same thing in substance. He emphasized that we did mean business with respect to strengthening the remaining controls. He then ended his remarks with a statement to the President that this was substantially the picture. He warned once again that if the NSC agreed to recommend NSC 5704, its action amounted to a liberalization of the controls on Free World trade with Communist China.

Mr. Cutler invited Mr. Randall to speak briefly on the matter of U.S. unilateral controls on trade with the Soviet bloc. Mr. Randall replied that NSC 5704 contemplated no change in the existing U.S. unilateral controls on trade with Communist China. He pointed out that the big problem which had been faced in NSC 5704 was the problem of obtaining a new and firm position by the United States with respect to the subject of multilateral controls, which controls would presently have to be the subject of negotiations with our allies. Mr. Cutler pointed out that, notwithstanding Mr. Randall's remarks concerning no change in U.S. unilateral controls, paragraph 13 of NSC 5704 called for us to "make appropriate and timely unilateral adjustments . . . [4] in the scope and severity of controls maintained toward selected satellites of the USSR, etc., etc."

Secretary Humphrey expressed the view that U.S. unilateral controls over U.S. trade with Communist bloc countries should be relaxed in phase with the relaxation of the multilateral controls on Free World trade with the Communist bloc. Mr. Randall replied that this was not the subject of NSC 5704. The President expressed the opinion, in agreement with Secretary Humphrey, that U.S. unilateral controls should likewise be relaxed.

Secretary Dulles inquired whether it was the intention of NSC 5704 to continue our present level of controls over Free World trade with North Vietnam. Mr. Lay and others assured the Secretary of State that this was essentially the case, and that our policy in this respect was set forth in the policy paper on Southeast Asia (NSC 5612/1). [5] Mr. Cutler said he would make sure that the point raised by Secretary Dulles was taken care of in the Council's record of action on NSC 5704.

Returning to his point, Secretary Humphrey said he presumed, then, that NSC 5704 was a policy statement having nothing to do with what course of action the United States followed with regard to controls on its own trade with the Communist bloc countries, and dealt only with the position of the United States regarding multilateral controls on trade with the Sino-Soviet bloc.

The President pointed out that one important point did not seem to be covered in NSC 5704. Our own position with respect to trade with the Communist countries was much influenced by domestic politics. While, of course, we want our allies to remain strong, which was why we favored the policy set forth in NSC 5704, was it not a fact that if Congress comes to feel that we are offering no serious objection to our allies trading with Communist China, we could get into a lot of trouble with the Congress? Mr. Randall replied with an emphatic affirmative, and Secretary Wilson added that our troubles with Congress would be particularly severe if we did not let them know in advance of our plans for permitting the liberalization of Free World trade with Communist China. The President said that he wanted it clearly understood that he agreed with the policy on Communist Chinese trade set forth in NSC 5704, but he wanted the Council to be aware of the difficulties involved. Furthermore, the President pointed out that if we do not propose to put severe obstacles in the way of our allies trading with Communist China, it seemed to him rather foolish to put such obstacles in the way of our own U.S. trade with Communist China.

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[4] Ellipsis in the source text.

[5] NSC 5612/1, "U.S. Policy in Mainland Southeast Asia," was approved by the President on September 5.

The President then stated that there was another factor to be considered, the factor that Admiral Radford was continually emphasizing—namely, that if there is a relaxation of the controls on trade with Communist China, then all our friends and allies in the Far East will conclude that we are abandoning them. Mr. Randall agreed that this, too, presented a real difficulty. It would be essential to reassure our friends and allies in the Far East that this move toward a liberalization of the controls on trade with Communist China certainly did not signify any intention on the part of the United States to recognize Communist China. The President confessed that he was much puzzled as to what we were going to say about this remarkable change in our policy on trade controls, both to our own Congress and to our Far Eastern allies.

Secretary Dulles said that it must be explained in terms of the necessity that the United States was under to make some concessions on less essential items in order to retain the controls on the more essential items of trade between the Free World and Communist China.

Secretary Wilson warned that if any of the allied countries who trade with Communist China should decide to make use of money and credits from the United States to finance their trade with Communist China or the Soviet Union, such a course of action would be considered inexcusable here at home, and would get the Administration into terrible trouble. Secretary Humphrey said this might well be the case, but how could we possibly prevent our allies from using funds of U.S. origin to help finance their trade with the Sino-Soviet bloc? We could never separate out such funds.

Mr. Cutler then asked Secretary Weeks to comment. Secretary Weeks pointed out that when all was said and done, the trade of the Free World with Communist China was, even in its totals, not very extensive. Ten years ago this total trade had amounted to $700 million. Last year it had amounted to only $400 million. Secretary Weeks stated that he agreed with the policy set forth in NSC 5704, but he strongly recommended that we talk this policy over with John McClellan (Senator McClellan) before we proceeded to carry it out, in order to ascertain what kind of storm will be raised in Congress by the adoption of a more liberal system of controls on Free World trade with Communist China. As a second point, Secretary Weeks recommended that the United States try to determine what kind of a quid pro quo the United States could get from its acquiescence in this liberalization. Thirdly, Secretary Weeks pointed out that a recent cable from our Embassy in London made it quite clear to him that the British wanted to go much further in liberalizing trade with Communist China than we in the United States had ever dreamed they wanted to go.[6] In point of fact, the current British position amounted to the virtual abandonment of Free World controls on trade with Communist China. At the President's request, Secretary Weeks read the pertinent paragraphs of the cable from London.

Mr. Cutler commented that he had supposed that we were well aware that neither the United Kingdom nor Japan would feel that the concessions made in NSC 5704 to their views went far enough.

Secretary Wilson commented that it seemed absolutely true to him, even apart from obvious military considerations, that the United States was altogether justified in maintaining a list of items which the Free World would refuse to ship to the Communist world, for, after all, trade in Communist countries was a state monopoly. Beyond this, Secretary Wilson thought there was a strong justification for the eventual formulation of a single list of controlled items covering both the Soviet [Union] and its satellites on the one hand and Communist China on the other. After all, having the two separate lists, one for Russia and one for others, tended to drive Russia and China closer together. He repeated, however, his view that we were certainly justified in having one agreed International List of controls for really significant items.

Secretary Weeks once again warned the Council of the need for consultation and collaboration with Congressional leaders in order to prevent an explosion when the contents of the new policy became known.

Secretary Wilson asked about the fate of controls on the sale of copper wire to the Sino-Soviet bloc. In view of the vital importance of this item, Secretary Wilson said that if we sold copper wire to the Sino-Soviet bloc we might just as well sell them everything else on the control list.

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[6] Apparent reference to telegram 4595 from London, Document 144.

After Mr. Randall and others had commented on the status of negotiations on the sale of copper wire, Mr. Cutler called attention to his proposal for coordinating the implementation of NSC 5704—namely, that it be referred to the Secretaries of State and Commerce for coordination through existing interdepartmental mechanisms, which Mr. Cutler described. He then posed the question as to whether the Council wanted the policy in NSC 5704 taken up with members of Congress prior to its actual implementation. The President thought this should be done. Mr. Cutler said he presumed that the object of consultation with Congress was to explain the policy in NSC 5704 rather than to condition the action of the Executive Branch on any assent by the Congress. The President said that Mr. Cutler's interpretation of consultation with the Congress was right.

The Director of the Bureau of the Budget expressed the hope that in giving approval to NSC 5704, the National Security Council would not give up further exploration of Secretary Wilson's recommendation that we seek a single list of items to be controlled in Free World trade both with the Soviet Union and Communist China. Mr. Cutler pointed out to Mr. Brundage that this was precisely the intent of NSC 5704, which would eventuate in a single list of items to be multilaterally controlled.

Secretary Dulles inquired whether it would be Mr. Randall's responsibility to undertake these discussions with Senator McClellan. He pointed out that the reaction of Senator McClellan and his Congressional colleagues might well be such as to cause a reconsideration of NSC 5704. Secretary Humphrey thought that perhaps we ought not to approve NSC 5704 prior to a discussion with Senator McClellan. Mr. Cutler promised that the record of action would reflect the concern expressed about Congressional reaction to NSC 5704.

The National Security Council: [7]

a. Noted and discussed the draft statement of policy on the subject contained in the reference report (NSC 5704), prepared by the Council on Foreign Economic Policy in response to NSC Action No. 1292–e, in the light of the views of the Joint Chiefs of Staff and the NSC Planning Board as presented orally at the meeting.

b. Adopted the statement of policy in NSC 5704, subject to the following amendments:

(1) *Page 6, paragraph 13, line 3*: Insert "European" between "selected" and "satellites".

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[7] Paragraphs a–c that follow constitute NSC Action No. 1677, approved by the President on March 8. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1957)

(2) *Page 7, paragraph 20*: Insert an asterisk at the end of the paragraph, and add the following footnote:

"* U.S. economic defense policy with respect to North Vietnam is contained in paragraph 71 of NSC 5612/1, which reads as follows:

'71. Apply, as necessary to achieve U.S. objectives, restrictions on U.S. exports and shipping and on foreign assets similar to those already in effect for Communist China and North Korea.' "

c. Noted the President's directive that the policy in NSC 5704, as amended and approved, should not be implemented prior to discussion with appropriate members of Congress and a report to the President on the results thereof.

Note: NSC 5704, as amended and approved by the President subject to c above, subsequently circulated as NSC 5704/1 for implementation by all appropriate Executive departments and agencies of the U.S. Government, and referred to the Secretaries of State and Commerce for coordination through existing interdepartmental mechanisms, with progress reports to be submitted to the National Security Council, through the Council on Foreign Economic Policy, at least every six months.

[Here follow items 3 and 4.]

S. Everett Gleason

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147. National Security Council Paper [1]

NSC 5704/1 *Washington, March 8, 1957.*

STATEMENT OF U.S. ECONOMIC DEFENSE POLICY

General Policy

1. The continued threat to the security of the Free World posed by the Sino-Soviet bloc warrants the application against that bloc of such economic defense measures by the United States and by the Free World as will retard the growth of the war potential of the bloc

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[1] Source: Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5704 Series. Secret. A covering note by James Lay, dated March 8, noted that the President approved the statement of policy in NSC 5704 on March 8, as amended and adopted by the NSC as NSC 5704/1.

and reduce its unity. Our attitude and program must be one which will not increase the possibility of war, but rather one which will keep open paths which might lead to a sounder basis for peace. During this period, the courses we take should be based upon the assumption that interference in the trade between the Free World and the Sino-Soviet bloc should take place only where a clear advantage to the Free World would accrue from such interference. They should also be based upon the assumption that the maintenance of personal, cultural, and commercial contacts between the Free World and the European Soviet bloc may have positive advantages during this period of tension and watchfulness. Our policy should reflect flexibility as between the United States and the USSR on the one hand and the United States and each individual Eastern European country on the other hand.

2. The economic defense program should be framed and administered with full recognition of the fact that the economic defense system of the Free World is part of the larger system of military and political alliances and, like them, depends upon the cooperative efforts of the free nations. The United States should support the existing Free World collective arrangements in the field of trade controls. Accordingly, in determining the economic defense measures which the United States should adopt and those to be urged on other nations, the impact upon the existing system of economic defense as a whole, and upon the Free World military and political alliances, should be taken into account. Similarly, in multilateral military and political discussions, consideration should be given to the impact of their courses of action upon and support to be derived from the economic defense program.

3. The United States should maintain such unilateral controls as will have a significant effect on the growth of the war potential of the Sino-Soviet bloc or will effectively support other U.S. policies (e.g., China policy) or fulfill U.S. legislative requirements.

4. The problems posed for our allies by trade controls should be given appropriate weight in determining the controls which the United States should advocate that the Free World exercise in its economic relations with the Sino-Soviet bloc.

5. Political conditions generally, and economic conditions in some individual countries, may make substantial intensification of multilateral controls with respect to the European Soviet bloc impractical for the foreseeable future, in the absence of a marked worsening of international tensions. Extensions or reductions of these controls should be proposed or supported, however, whenever justified by new technology, new intelligence or altered evaluation of the significance of particular imports to the Soviet bloc.

6. The controls should be so applied as to support U.S. policy with respect to encouraging and assisting bloc satellites to achieve and maintain national self-determination and independence.

7. The United States should avoid, and seek to have other friendly countries avoid, becoming excessively dependent on the Sino-Soviet bloc as a market or as a source of supply.

8. So long as it is considered to be in the U.S. interest, there should continue to be applied against Communist China[2] more severe controls than are applied against the remainder of the Soviet bloc. At such time as it is judged to be in the U.S. interest to do so, the controls toward Communist China should be revised.

Courses of Action

9. Seek to maintain the existing multilateral security trade control structure and the control measures developed thereunder, making appropriate and timely adjustments in those measures to reflect changes in bloc vulnerability or to improve cooperation and increase effectiveness.

10. Seek to maintain and, as necessary, extend the bilateral arrangements with other Free World countries to obtain support for multilaterally agreed controls.

11. Maintain toward the European Soviet bloc U.S. export controls over multilaterally agreed items and over such other materials, equipment, technology and services as can be so unilaterally controlled by the United States as to achieve a worthwhile adverse impact on the war potential of the European Soviet bloc, or can effectively serve other U.S. policy objectives judged by the U.S. control authorities to warrant the use of unilateral controls; and take all appropriate measures as will effectively enforce these controls and prevent their frustration.

12. Approve, as a general rule, for shipment from the United States to the European Soviet bloc, commodities not controlled under paragraph 11 above, and, where appropriate, remove the requirement of specific licenses for such shipments to the entire European Soviet bloc.

13. Make appropriate and timely unilateral adjustments and seek appropriate multilateral adjustment in the scope and severity of controls maintained toward selected European satellites of the USSR, as feasible, to encourage and support progress toward national self-determination and independence.

14. Enhance the utility of evaluated intelligence pertaining to economic defense problems.

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[2] Communist China as used throughout this paper includes North Korea. [Footnote in the source text.]

15. Seek the adoption of effective measures to enforce the agreed scope and severity of the multilateral controls and increase the scope and effectiveness of multilateral exchanges and cooperation in the enforcement field.

16. Seek a close association with NATO and other security alliances and, where feasible, obtain their consideration and advice on appropriate economic security problems.

17. Seek agreement to utilize the multilateral control structure for studies and exchanges of views regarding all Sino-Soviet trade practices which appear to be inimical to the Free World.

18. Encourage Free World countries to resist Sino-Soviet economic penetration and to avoid excessive dependence on trade with the Sino-Soviet bloc; foster the development of necessary markets and sources of supply within the Free World.

19. Administer current U.S. programs, such as economic development, military and other governmental procurement, defense support, stockpiling, disposal of surplus goods and properties, and similar activities, in such a way as to take into appropriate account the objectives of the economic defense program.

20. Maintain the current level of U.S. unilateral export, import and financial controls applied against Communist China.[3]

21. Seek to maintain effective multilateral controls on trade with Communist China at a level above that on trade with the European Soviet bloc. Seek to obtain multilateral agreement on a differential which would embargo the items on International List II (25 items) and on International List III (63 items). The items on the Consolidated China Special List (207 items) should be offered for decontrol except those items which can be justified as being sufficiently strategic to warrant their addition to the International Lists for control to the European Soviet bloc and embargo to Communist China.

22. Take all appropriate actions effectively to enforce these controls toward Communist China and to prevent their frustration.

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[3] U.S. economic defense policy with respect to North Vietnam is contained in paragraph 71 of NSC 5612/1, which reads as follows:

"71. Apply, as necessary to achieve U.S. objectives, restrictions on U.S. exports and shipping and on foreign assets similar to those already in effect for Communist China and North Korea." [Footnote in the source text.]

148. Editorial Note

On March 13, representatives of the Japanese Embassy handed Howard Jones a note from the Japanese Ambassador in reply to the United States note of January 9 regarding strategic trade controls. The United States note followed closely the proposed note enclosed in CA–5218, Document 140. A memorandum of the subsequent conversation, drafted by Thelma Vettel, Acting Officer in Charge of Economic Affairs, Office of Northeast Asian Affairs, reads in part as follows:

"The note stated that the Government of Japan has come to the conclusion that the international situation has not changed so drastically as to require modification of its views on strategic trade controls and expressed the desire of the Government of Japan for the relaxation of the controls, especially recision of the China differential. The note expressed the willingness of the Government of Japan to participate in such appropriate multilateral consultation on the matter as may be agreed upon by most of countries concerned." (Department of State, Central Files, 493.009/3–1357)

The text of the Japanese note is *ibid.*, 493.009/3–2157.

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149. Letter From the Chairman of the Council on Foreign Economic Policy (Randall) to the Under Secretary of State (Herter) [1]

Washington, March 21, 1957.

DEAR CHRIS: On the off-chance that they might be useful in further discussion on the Hill with regard to the China differential, I should like to list here the points which I think might helpfully be made.

1. The proposed change affects multilateral controls only. Our unilateral policy, which is stricter than that in the multilateral system, remains unchanged.

2. The proposed change does not reflect a desire by the Executive Branch to be soft toward China. On the contrary, the purpose is to get tough with China by establishing a level of controls that is meaningful, and that will be enforced. At the present rate of

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[1] Source: Department of State, Central Files, 493.509/3–2157. Secret. A copy was sent to Sinclair Weeks.

deterioration, all controls will soon be undermined unless a new and effective line can be established by making this moderate retreat.

Assistant Secretary Kalijarvi has an excellent file, which documents the pressures we have been under nation-by-nation on this point.

3. Our relationships with Japan will be improved by this step. It is a very sore point with Japan that their European competition, such as the Germans, are permitted to ship to China by transit through the satellite countries goods which they may not ship direct.

Improved relationships with Japan would have a direct bearing on two problems which are attracting wide attention currently in the Congress.

a. The budget. It is the urgent objective of the Pentagon to persuade Japan to take a greater part of the military burden in the Pacific. To the extent that this can be achieved, American forces can be brought home, and our military expenditures cut.

b. Japan is the best customer for our agricultural surpluses. It is, furthermore, a dollar market, and not a give-away market. The Department of Agriculture regards this step toward liberalization as very important in improving their opportunity in the Japanese market.

Sincerely yours,

CBR

Special Assistant to the President

150. Memorandum of a Conversation, Mid-Ocean Club, Bermuda, March 22, 1957, 10:30 a.m.[1]

PARTICIPANTS

United States

Secretary Dulles
Ambassador Whitney
Senator Walter F. George
Mr. Phleger
Mr. Elbrick
Mr. Berding
General Goodpaster
Mr. Parsons
Mr. Walmsley
Mr. Timmons
Mr. Macomber
Mr. Dale

United Kingdom

Foreign Secretary Selwyn Lloyd
Mr. P.H. Dean
Sir Harold Caccia
Sir Frederick Hoyer Millar
Lord Hood
Sir Richard Powell
Mr. Dennis Laskey
Mr. J.A.N. Graham
Mr. Dobbs
Miss Rolleston

SUBJECT

U.K. Association with the Continent

[Here follows discussion of unrelated subjects.]

Far East

Mr. Lloyd opened the discussion saying that this would be a preliminary run since the Prime Minister wished to discuss this problem further himself. He noted the existence of "virtual unanimity" among both political parties in the UK on China trade. He pointed out that it was becoming extremely difficult to explain the "China differential" in Parliament, and that the British people regard the Russians as their principal enemies rather than the Chinese. He mentioned that the British had made considerable use of the exception procedure but that there was little room for further expansion in this direction. Lloyd said that the British now feel very strongly that the time has come to abolish the differential. He maintained that the present controls harm the free world more than they do the Communists and hence are a political liability. He foresaw little chance that a free Malaya or Hongkong would be willing to operate under a control system in which the China differential was maintained. He said the British also believe the existence of the differential brings the whole system of trade controls into disrepute, making it harder to maintain them against the USSR and increasing the possibility of the disintegration of the entire system. He said that the US is practically alone in attempting to maintain the differential and that our attitude leads to anti-American feeling in Britain. Lloyd stated that the British and Americans had talked about this question thirteen months ago in Washington[2] and had agreed to an item-by-item review designed to see where relaxations could be made. He said that this examination had produced no results and that Britain could not hold on to the differential much longer. Moreover, he added the British do not believe it is right to do so. He said that the only reason they have stuck to the differential as long as they have was to keep their policy aligned with ours.

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[1] Source: Department of State, Conference Files: Lot 62 D 181, CF 867. Secret. Drafted by Dale. Delegations from the United States and the United Kingdom, led by President Eisenhower and Prime Minister Macmillan, met at Bermuda for a 3-day conference, March 21–23, in order to discuss matters of mutual concern.

The Secretary said that this was a hot subject with us too, although the domestic problem is reversed here. He noted that the emotional feeling in the US about China is stronger than the feeling about Russia due primarily to the casualties suffered during the Korean war and to imprisonment of US civilians by the Chinese Communists. He said it is less a question of intellectual justification than of emotional feeling. The Secretary stated that nevertheless we have been giving renewed consideration to the "possibility of getting rid of the differential", perhaps by adding a few items to the list and getting rid of the balance. He said that we could not discuss our plans in detail until Congress has been consulted but that we hope to be able to take a fresh international position on this matter within a couple of weeks. The Secretary added that if it could be made clear that an economic shift of this type does not presage a political shift and if at the same time the US and the UK could get closer together on the political side it would help us a great deal.

Mr. Lloyd asked whether the Secretary intended this move on the political side to be public and was answered in the affirmative. Then Mr. Lloyd said "many words would have to be eaten in the UK" and that considerable public education would be required.

The Secretary noted that if we should bring Communist China into the UN it would make the problem which has arisen with the entrance of new members into the UN even worse. He said that neither our own interests nor the requirements of the Charter would be met by seating Communist China. He noted that the British have gone along with the moratorium thus far but that it has appeared to us that they were doing so unwillingly. If their support could look more genuine it would help us with the economic problem of the differential.

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[2] For the Dulles–Lloyd and Eisenhower–Eden discussions on China trade controls on January 31, 1956, see Documents 93 and 94, respectively.

Mr. Lloyd stated that the change in composition of UN membership has changed many UK views. He said now that we have no western working majority, the Chinese Communist capacity for mischief would be even greater.

The Secretary suggested that the British might now give some thought as to whether we could strike a balance on these two items. He observed that our positions in Asia have little depth and that people out there are becoming nervous over whether we will accept the Chinese Communists. He added that it was for this reason he gave his recent speech in Canberra on the subject of Communist China which he had not originally intended to do.[3] Mr. Lloyd stated that the British position on the moratorium would become easier if we could give ground on the trade side, but that it should not look publicly as though we were striking a bargain. Secretary Dulles said that the morning's communiqué should avoid discussion of this matter.

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[3] For text of Secretary Dulles' speech before the SEATO Council, March 12, 1957, see *American Foreign Policy: Current Documents, 1957*, pp. 1116–1117.

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151. Note From Foreign Secretary Lloyd to Secretary of State Dulles[1]

Bermuda, March 23, 1957.

CHINA TRADE

During the course of the discussion on the Far East yesterday, you asked what our position was about Communist China and the United Nations.

We have up to now taken the initiative in putting forward the so-called moratorium procedure. We have some doubt how much longer this may be the way to handle the question of the claim of Communist China to a seat in the United Nations. We will study this sympathetically and keep in touch.

Meanwhile it would be easier for us to carry our own public with us on this question if in the meantime the question of the

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[1] Source: Department of State, Presidential Correspondence: Lot 66 D 204, UK Officials Corres. Secret. According to a handwritten notation on the source text, this note was handed to Dulles by Lloyd on March 23.

China differential had been disposed of quickly and without U.S. opposition.

As you will recall I said that we could not continue to go along with that differential for more than a very short period. I understand you will have a proposal to put forward within the next two weeks for the amalgamation of the China and Russian lists. We shall give urgent consideration to such a proposal and meanwhile only wish to urge that any co-ordinated list should be one which could command general respect. With this in mind the existing Russian list itself should be kept under revision and any proposal merely to add certain items from the China list to the Russian list would not in our view obtain general acceptance.

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152. Note From Secretary of State Dulles to Foreign Secretary Lloyd [1]

Bermuda, March 23, 1957.

CHINA TRADE

We hope very much that the question of the claim of Communist China to a seat in the United Nations can be handled on a basis which presupposes greater unity between us on the substance of the matter.

We have a program for dealing with the China differential which has been approved by the National Security Council but as to which we are still in consultation with the Congress. It would, as I recall, amalgamate completely the two lists with an addition of certain items which we consider strategic to what would be the common list and the subtraction of a considerably greater number of items from what is now the China list. However, I think that our proposal contemplates that while there would be a single list there might still be a differential between Russia and China in terms of "prohibition", "limitation" or "watch". We shall put this forward just as quickly as we have had the Congressional consultations, which will, we hope, allay serious opposition. Of course, just as it would be easier for you to take a stronger position against Chinese representation in the United Nations if the China trade differential were disposed of to your satisfaction, so from our standpoint it would doubtless be easier to deal with the trade question if we knew that your attitude on the substance of Chinese representation in the United Nations would be more positive.

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[1] Source: Department of State, Conference Files: Lot 62 D 181, CF 868. According to a handwritten notation on the source text, Dulles handed this note to Lloyd on March 23.

Perhaps we shall in practice have to move forward on both fronts in a somewhat synchronized manner.

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153. Letter From the British Ambassador (Caccia) to the Deputy Under Secretary of State for Economic Affairs (Dillon) [1]

Washington, April 7, 1957.

DEAR DOUG: You will recall that when the question of China trade was discussed at Bermuda Mr. Dulles informed us that a proposal for dealing with the China differential was under consideration and that he hoped to be in a position to present a fresh position in the next two weeks.

It is only just two weeks since the Bermuda talks took place, but in case you have not already heard it from your Embassy in London, I have received instructions from the Foreign Secretary to draw attention to the fact that the Government were put under considerable pressure and criticism about China trade in the debate on Bermuda in the House of Commons on April 1. In fact a Motion has been put down on the Order Paper supported by over 100 members on both sides of the House as follows: "That this House deplores the damage which British export trade suffers as a result of the China embargo; endorses the appeal made recently to the Government by the Federation of British Industries and other industrial and commercial organisations; and regrets that the Prime Minister has not been able to announce, as a result of the Bermuda Conference, at least a modification of the embargo."

According to the press this morning the Secretary for Commerce spoke on the subject yesterday and indicated that talks with the other nations concerned would take place "shortly". [2] But I see that the same press sources interpreted this as meaning "within three months." Three months is of course considerably longer than we had understood from what Mr. Dulles said at Bermuda, and I shall be grateful if you can give me some early indication which I could pass on to London.

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[1] Source: Department of State, Central Files, 411.9341/4–757. Confidential.

[2] Apparent reference to Weeks' remarks on the China trade controls, reported in the *New York Times*, April 5, 1957.

I notice too from the press account that any relaxation of the restrictions on trade with China may be accompanied by an increase in the restrictions on trade with the Soviet Union and her satellites. According to the press Mr. Weeks said that this was a "quid pro quo to be offered if the pressures from our partner nations are successful." I realise that Mr. Dulles said at Bermuda that consideration was being given to getting rid of the differential by adding a few items to the COCOM list and equating the China list to it. But may I also draw attention to the passage in the paper which the Foreign Secretary handed to Mr. Dulles on March 23? It read: "We shall give urgent consideration to such a proposal (that is, a proposal for the amalgamation of the China and Russia lists) and meanwhile only wish to urge that any co-ordinated list should be one which could command general respect. With this in mind the existing Russia list itself should be kept under revision and any proposal merely to add certain items from the China list to the Russia list would not in our view obtain general acceptance." [3]

Yours sincerely,

Harold Caccia

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[3] A note attached to the source text from Charles S. Whitehouse, Special Assistant to Dillon, to George S. Vest, Staff Assistant, EUR, dated April 9, noted:

"No action is required as Mr. Dillon has informed the Ambassador by telephone that he is confident that action will be taken on this matter in far less than three months and that he believes the Ambassador is overly pessimistic in this regard."

154. Memorandum of a Conversation, Department of State, Washington, April 9, 1957[1]

SUBJECT

China Trade Controls

PARTICIPANTS

Foreign Affairs Committee

Rep. Thomas S. Gordon, Chairman
Rep. Robert B. Chiperfield
Mr. Boyd Crawford

Foreign Relations Committee

Sen. Theodore F. Green, Chairman
Sen. H. Alexander Smith
Mr. Carl Marcy

Senate Armed Services Committee

Sen. Richard B. Russell, Chairman
Sen. Leverett Saltonstall

House Armed Services Committee

Rep. Carl Vinson, Chairman
Rep. W. Sterling Cole

Department of State

The Acting Secretary
Mr. Douglas Dillon, Deputy Under Secretary for Economic Affairs
Mr. Roderic O'Connor, Deputy Assistant Secretary for Congressional Relations
Mr. Robert B. Wright, Chief, Economic Defense Division

International Cooperation Administration

Mr. John B. Hollister, Director of International Cooperation
Admiral Walter S. DeLany, Deputy Director for Mutual Defense Assistance Control

Department of Defense

Mr. Mansfield D. Sprague, Assistant Secretary for International Security Affairs
Mr. Charles A. Sullivan, Director, Office of Special International Affairs

Department of Commerce

Mr. H. C. McClellan, Assistant Secretary for International Affairs
Mr. Frederick C. Nash, General Counsel

The Acting Secretary explained that the meeting had been arranged to discuss with the appropriate Congressional committees the problem of the multilateral Communist China trade control differential prior to making any U.S. proposals for changes in the international controls. He asked Mr. Dillon to present the matter.

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[1] Source: Department of State, Central Files, 493.009/4–957. Confidential. Drafted by Wright.

Mr. Dillon explained that there is no plan for making changes in the United States controls towards Communist China, and that the problem relates only to the pressures by other countries for a relaxation of the multilateral CHINCOM embargo. He presented the problem which the United States faces in the CHINCOM forum, emphasizing the following elements:

1. During the Korean war the CHINCOM countries added to the embargo list applicable to Communist China many items which were controlled to a lesser degree or not at all to the European Soviet bloc.
2. The revision of the COCOM lists in 1954 increased the China differential embargo by removing items from the COCOM lists but not from the CHINCOM list.
3. The other participating countries have criticized the present situation under which there are some 207 items on the China embargo list but not on the COCOM lists. These items, other countries argue, can be purchased by the Soviet bloc and transshipped to Communist China, thus vitiating the CHINCOM embargo.
4. Other countries have made increasing use of the exceptions procedures to ship items to China usually over U.S. objection, a situation which has weakened the general control structure.
5. The British at Bermuda made it clear that they consider the time for change is overdue in light of U.S. willingness fifteen months ago to review the question.
6. The French will be setting forth proposals on April 12 for the removal of the differential in steps. The prospect is that virtually all other countries in the group will support the French proposal unless we have a concrete counterproposal.

Mr. Dillon then set forth the proposal which the executive branch has arrived at for continuing the embargo to China on all three International Lists, decontrolling the 207 items except those which we can demonstrate as being strategic enough to add to one of the COCOM International Lists (presumably the lower List II or List III categories), and tightening up the exceptions procedure. He indicated that an initial selection of approximately 40 items had been made by U.S. technicians, but the addition of those items to the lists would depend upon the success of our negotiations.

There were a number of questions by the Senators and Representatives clarifying their understanding of the problem faced by the United States and of the executive branch proposal to meet it. These questions reflected interest from the Congressional side in the following points: the U.S. record of general objection to CHINCOM exceptions, the fact that no relaxation under the Battle Act is involved in the proposed action, the fact that other countries are likely to go their own way unless some modification can be agreed, a belief that the CHINCOM relaxation might be subject to the interpretation of a weakening by the U.S. in its overall policy towards Communist China, and the fact that the proposal has the favorable prospect of adding some items to the COCOM lists. Senator Green noted at the conclusion of the meeting by way of summary that the United States seemed essentially to be faced with a "choice of evils". It was specifically suggested that as a matter of tactics, it would be more palatable to the U.S. public if the U.S. proposal could be made by some other country as a compromise between extremes. Mr. Dillon said this tactical suggestion would be explored.

It was understood that the Department would put out a brief press statement at the end of the day following consultation later in the afternoon with the Senatorial leadership.[2]

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[2] In a memorandum to the President, dated April 10, Acting Secretary Christian Herter noted that when the President approved NSC 5704/1 he directed that the policy should not be implemented prior to discussion with appropriate members of Congress. Herter stated that "those discussions have now taken place" and explained that "the reaction of all the Congressional leaders was strikingly similar in that they seemed to feel that in view of the situation faced by the United States the policy proposed in NSC 5704/1 seemed as good an answer as could be found." Accordingly, he recommended that Eisenhower authorize the appropriate government agencies and departments to implement the policy contained in NSC 5704/1. (Eisenhower Library, Herter Papers, Chronological File)

On April 11, the President authorized the implementation of the policy contained in NSC 5704/1. James Lay informed the NSC of the President's decision in a memorandum of April 11. (Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5704 Series)

155. Instruction From the Department of State to Certain Diplomatic Missions [1]

CA-8615 *Washington, April 17, 1957.*

SUBJECT

Forthcoming Negotiations on China Trade Controls

1. Procedures

The USDel was authorized to concur in CHINCOM on April 12 to the scheduling of substantive discussions beginning May 7 with a view to making recommendations to CG for a definitive settlement of the China Trade Controls problem. [2] It is anticipated that the U.S. will submit substantive proposals prior to the date scheduled for CHINCOM discussion. In the period prior to such discussion the Department of State will outline the U.S. proposals in Washington to the Embassies of the other participating countries. (Proposed Aide-Mémoire attached) The list of items proposed by the U.S. for addition to the IL's will also be given to interested PC's prior to submission to CHINCOM.

The Washington bilaterals will be on a high level and are intended primarily to seek political understanding of the U.S. position so that the U.S. proposals may be negotiated to the maximum extent as a package in order to reach an early settlement of the problem. If the Department is successful in accomplishing this objective it may be possible to avoid extensive technical discussions in CHINCOM.

2. Proposals

A. The U.S. will seek to retain under continued embargo to Communist China all of the items on I/L's II and III in addition to I/L I.

B. The U.S. will agree to the decontrol of the 207 items on the Consolidated China Special List except for those items (approximately 50 items in whole or in part) which it believes are sufficiently strategic to warrant their continued embargo to Communist China and their addition to I/L III to prevent frustration of that embargo. (The list of items will be transmitted shortly) The U.S. will seek

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[1] Source: Department of State, Central Files, 611.93231/4–1757. Confidential. Drafted and approved by Knoll. Sent to Bern, Hong Kong, Geneva for Johnson, Singapore, Stockholm, Vienna, Kuala Lumpur, Ankara, Athens, Bonn, Brussels, Copenhagen, The Hague, Lisbon, Luxembourg, London, Oslo, Ottawa, Paris, USRO/ST in Paris, Rome, and Tokyo.

[2] The Department transmitted this instruction to the U.S. Delegation in Topol 1924 to Paris, April 11. (*Ibid.*, 493.009/4–1057)

COCOM/CHINCOM agreement to the addition to I/L III of these latter items. (Several of the items have recently developed special military characteristics that appear to warrant their transfer to I/L I or to the International Munitions List. However, the U.S. will defer this proposal for a more appropriate time.)

C. In the event that strategic justification is requested either bilaterally or in CHINCOM for items proposed for I/L III, detailed fact sheets will be available for use by U.S. negotiators.

D. The U.S. will attempt to obtain an undertaking by the PC's to take all feasible measures to assure the effective implementation of all controls applicable to strategic trade with Communist China. More specifically, the U.S. ~~would~~ urge agreement by the PC's to restrict licensing to the European Soviet bloc of the items on I/L's II and III when there is likelihood of diversion.

E. Proposals outlined in paragraphs A through D above will be negotiated as a unit. FYI Alternative proposals by other PC's will be referred for urgent interagency review in order to ensure final settlement of the problem once negotiations are begun. End FYI.

F. The U.S. will propose that the COCOM Document 471 procedure . . . be made applicable for all exceptions to Communist China (i.e. I/L's I, II, and III). Under existing procedures most of the items which would be retained under embargo to Communist China already are covered by the Doc. 471 procedure. This proposal would result in the elimination of the COCOM Doc. 782 procedure which is now applicable to several items which will be proposed for retention under embargo control. FYI The U.S. will be prepared to consider on an urgent basis alternative proposals by the other PC's for exceptions procedures; however, in consideration of such proposals the U.S. will press for the elimination of the objectionable features of the present Doc. 782 procedure.

G. Similarly, the U.S. will be prepared to propose or to consider on an urgent basis proposals for modifying the . . . procedure . . . applicable to items embargoed to Communist China. End FYI.

H. The U.S. will propose that the COCOM Export Control Subcommittee consider further means for preventing the frustration of the China embargo by illegal export or diversion of embargoed items. If specific proposals have been approved by EDAC prior to discussion by CHINCOM of the U.S. package, such proposals will be introduced at the same time for consideration by either CHINCOM or the Export Control Subcommittee.

I. The U.S. will propose that existing voyage licensing and bunkering controls be applied to the revised China embargo list and that these controls be examined by either CHINCOM or the Export Control Subcommittee with a view toward making them more uniform in coverage and application.

3. Instructions for USDel submission of the U.S. proposals to CHINCOM will be forwarded shortly. The USDel may inform the Chairman of CHINCOM in advance of the substance of the U.S. proposal.

Dulles

[Enclosure]

AIDE-MÉMOIRE

The United States Government has given careful study to the question of the multilateral China trade controls in an attempt to find a settlement which will take account of the differing views of participating countries. The United States for its part continues to believe that special trade controls towards Communist China are warranted for political and strategic reasons. The United States is well aware, however, of the political and commercial pressures in other countries for a revision of controls. It considers that an agreed solution of the problem can be reached if accommodations are made by each of the participating countries to the views of the others.

The United States accordingly will be putting forward in CHINCOM proposals (attached) which would provide an enlarged area for trade by other participating countries with Communist China but would also maintain effective multilateral controls towards Communist China covering categories of significant strategic importance at a level more restrictive than that applied to trade with the European Soviet bloc. The differential treatment towards Communist China which the United States proposes that the CHINCOM continue would take the form of continued embargo to Communist China of all items on the International Lists II and III in addition to List I. The United States is prepared to consider the decontrol of the 207 items on the Consolidated China Special list except for those items which are sufficiently strategic to warrant their addition to International List III (with continued embargo to Communist China). We anticipate that there may be approximately 50 such items which the United States would wish to propose for addition to International List III. The United States will communicate this list to other participating countries prior to the CHINCOM meeting.

The items selected resulted from an intensive intelligence and technical review of the entire Consolidated China Special List. In this review particular attention was given to those sectors of the economy which the Communist Chinese are developing rapidly in order to support their military efforts. We recognize that the Communist Chinese can obtain many categories of goods directly from the European Soviet bloc countries and that some goods, not now on International List I or II, can also move freely from Free World sources to the USSR and the European satellites and then be transshipped to Communist China. We found, however, that there are some types of goods which appear to be in short supply throughout the Sino-Soviet bloc countries and which for that reason are more difficult for Communist China to procure by any means. It is believed that continued embargo of such items will have a real effect upon the Communist Chinese capabilities to wage war.

U.S. Proposals

The U.S. proposes:

a) The retention under continued embargo to Communist China of all of the items on International Lists II and III in addition to International List I;

b) The decontrol of the 207 items on the Consolidated China Special List except for those items (approximately 50 items in whole or in part) which in its view are sufficiently strategic to warrant their continued embargo to Communist China and their addition to International List III to prevent frustration of that embargo;

c) COCOM–CHINCOM agreement to the upgrading to International List III of the approximately 50 items reported in paragraph (b) above;

d) An undertaking by the Participating Countries to take all feasible measures to assure the effective implementation of all controls applicable to strategic trade with Communist China. (More specifically, the U.S. urges agreement by the PC's to restrict licensing to the European Soviet bloc of the items on International Lists II and III when there is likelihood of diversion.);

e) The application of the COCOM Doc. 471 procedure . . . to all exceptions to Communist China (i.e., International Lists I, II, and III);

f) Consideration by the COCOM Export Control Subcommittee of means for preventing the frustration of the China embargo by the illegal export or diversion of embargoed items;

g) The application of the existing voyage licensing and bunkering controls to the revised China embargo list and the examination of these controls by either CHINCOM or the Export Control Subcommittee with a view toward making them more uniform in coverage and application.

156. Memorandum of Conversations, Department of State, Washington, April 17, 1957[1]

SUBJECT

U.S. Proposal on China Trade Controls

PARTICIPANTS

(In separate appointments with each Embassy representative)

Mr. R. G. C. Smith, Commercial Minister, Embassy of Canada
Mr. Egidio Ortona, Minister, Embassy of Italy
Mr. Giuseppe De Rege, Counselor, Embassy of Italy
Mr. Pierre Landy, Counselor, Embassy of France
Mr. Albert F. Ernecke, Commercial Counselor, Embassy of Germany
Mr. Takeso Shimoda, Minister, Embassy of Japan

Mr. Thorsten V. Kalijarvi, Assistant Secretary
Mr. Robert B. Wright, Chief, Economic Defense Division

On April 17 Embassy representatives (in separate appointments) were each given an Aide-Mémoire outlining the U.S. proposal on China trade controls for discussion in CHINCOM on May 7. The text of the Aide-Mémoire is attached to CA–8615[2] of April 17, 1957.

In transmitting the U.S. proposal Mr. Kalijarvi made the following points:

(1) Early in January the United States outlined its views on the importance of maintaining the present special controls towards Communist China and tightening the overall COCOM/CHINCOM controls in light of the events in Hungary and the Near East.

(2) The United States has reviewed the question of the special China controls in the light of the responses by participating countries to the U.S. evaluation of January. We now have a proposal which takes account both of the security interests relating to trade controls towards Communist China and of the political and commercial pressures brought to bear on certain participating governments.

(3) The proposal has been discussed with the interested Congressional leaders and hence represents a proposition which the United States can advance with confidence to other countries.

(4) The United States considers that an agreed solution of the problem can be found if accommodations are made by each of the participating countries to the views of the others.

(5) With respect to the list of 50 items referred to in the proposal attached to the Aide-Mémoire, the United States has not fully completed the selection of items but expects to be in a position to transmit the list to the embassies early in the week of April 22.

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[1] Source: Department of State, Central Files, 493.009/4–1757. Confidential. Drafted by Wright.

[2] *Supra.*

(6) The United States is giving its proposal to the participating countries in advance of the May 7 meeting in the belief that advance knowledge may facilitate the CHINCOM discussion.

(7) A response to the United States proposal is not essential, although any comment which the respective embassies might have to make would be welcomed by the Department. The United States intention is to carry on substantive negotiations in the multilateral forum rather than through bilateral discussions. We would hope for the support of the respective governments on the U.S. proposal.

(8) The United States proposals are set forth as a package in the hope that an item-by-item review may be avoided.

(9) The United States should attempt to hold publicity with respect to the April 17th discussions to a minimum, but if pressed might find it necessary to acknowledge that conversations had been held with respect to the question of China trade controls. No reference would be made to the fact that the United States had made a proposal.

Each of the embassy representatives stated that the U.S. proposal would be promptly referred to their respective capitals for consideration.

Mr. Smith made inquiry as to U.S. intentions with respect to copper wire. Mr. Kalijarvi indicated that the United States has not ceased to press for embargo of this item and would expect to press further but not specifically as a part of the negotiations relating to the China trade controls.

Mr. Ortona said that he appreciated the desire of the United States for a package consideration of the China differential problem and of the U.S. proposal, but he felt it to be probable that the Italian Government would wish to urge the deletion of bearings from the CHINCOM embargo.

Mr. Landy inquired whether it was expected that the United States would revise its own controls on the pattern of its proposal to CHINCOM. Mr. Kalijarvi said that the U.S. position with respect to its own controls would remain unchanged and that our proposal represented an accommodation to our CHINCOM partners rather than a proposal for change in the U.S. controls. Mr. Landy also expressed interest in obtaining any information which might properly be made available to him with respect to the foreign trade of Communist China or the information underlying the United States selection of items for retention. He agreed with Mr. Kalijarvi's statement that the potential trade of Communist China was vastly overrated by countries desiring to increase their trade with Communist China.

The Japanese had a number of questions of clarification. Mr. Kalijarvi confirmed for them the fact that a similar approach was being made to other participating countries, that reference to April 17th discussions to the press should be kept as general as possible, that we visualize negotiation in CHINCOM with the probability of an eventual CG meeting, that there had been no detailed discussion of China trade controls between the U.S. and the UK at Bermuda. Mr. Shimoda expressed interest in the nature of the consultation with the Congress and made comments indicating that he hoped the United States would not have a completely inflexible position with respect to the negotiability of the 50 items.[3]

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[3] That same day, Willis Armstrong made similar presentations to Embassy representatives of the Netherlands, Denmark, Greece, Turkey, Portugal, and Norway. A memorandum of those conversations, drafted by Knoll, is in Department of State, Central Files, 493.009/4–1757. The Department reported these conversations to the Embassies in the Participating Countries in circular telegram 838, April 18. (*Ibid.*, 493.009/4–1857)

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157. Telegram From the Embassy in Japan to the Department of State[1]

Tokyo, April 20, 1957—4 p.m.

2380. In our meeting April 20 Kishi read from talking paper entitled "China Trade and Problems Concerning Communist China," covering relaxation of China trade controls, establishment of trade agency in Communist China, relations between Nationalist China and Communist China and observations on Russian-Chinese relationship. In preliminary remarks before reading from paper, Kishi stressed that government and conservatives had decided on firm policy regarding Communist China including a) advancement of trade to maximum possible extent and b) Japan had no intention of recognizing or opening diplomatic relations with Peking regime in foreseeable future. He stressed that comments contained in paper should be considered in light of these fundamental principles. He pointed out that while Socialists were demanding recognition of Peking, Conservatives flatly rejected this point of view.[2] . . .

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[1] Source: Department of State, Central Files, 493.9441/4–2057. Secret; Limit Distribution.

[2] In telegram 2381 from Tokyo, April 20, MacArthur reported on a conversation that he had with Kishi immediately after presentation of his talking paper. "I said US was most sympathetic to Japan's trade problems," the telegram reads in part. "In fact, only yesterday copies of proposals we would introduce in CHINCOM were given Japanese Embassy by Dept which were designed to effect some liberalization of China trade controls. I expressed hope of my Govt that Kishi and his Govt would favor these proposals and support them in China Committee even though they did not

. . . .

[Here follow sections II–IV of the Japanese paper, entitled "Establishment of Trade Agency in Communist China"; "Nationalist China and Communist China"; and "Observations on the Russo-Japanese Relationship."]

MacArthur

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provide for total abolition China differential which PM sought." During their talk, Kishi was handed a note, and, after reading it, told MacArthur that "he had just been informed Japanese Embassy did receive US proposal for possible relaxation China trade control but noted with regret that China differential persisted. He asked for further, and he hoped favorable, consideration of Japanese position expressed in paper he had just given me. He added that it might be possible for Japanese Govt officials to understand US rationale but Japanese public did not, and therein lies the gap between the two countries." (*Ibid.*)

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158. Telegram From the Secretary of State to the Department of State [1]

Bonn, May 3, 1957—10 p.m.

Dulte 6. For Acting Secretary, Dillon and Robertson. Selwyn Lloyd told me today that he thought I should know that their Board of Trade said that our China trade proposals were "no good." I told him that we had "torn our heart out" to make these proposals and I could not understand their reaction. Lloyd said no doubt we had made a political effort but there was no economic substance in it and that the items that really counted were still on the embargoed list. We left it at that.

Dulles

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[1] Source: Department of State, Central Files, 611.41/5–357. Secret; Priority. Dulles was in Bonn for a Ministerial Meeting of the North Atlantic Council, May 2–3.

159. Editorial Note

At the opening session of the China Committee meeting in Paris on May 7, the United States Delegation presented a proposal for revision of the multilateral controls on trade with China. The proposal followed closely the Department of State instructions in CA–8615, Document 155. The French Delegation also submitted a proposal at this meeting, which called for the immediate abolition of all special controls on trade with China. Polto 2645 from Paris, May 8, noted that a deadlock ensued, in which unanimous agreement for either the United States or the French proposal was evidently unobtainable. It was clear, the Delegation reported, that the United States proposal was not acceptable in its present form, and that an item-by-item review was not imminent. (Department of State, Central Files, 493.009/5–857)

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160. Telegram From the Embassy in the United Kingdom to the Department of State [1]

London, May 14, 1957—11 a.m.

6179. Excon. Following is text of memorandum handed me by Selwyn Lloyd last evening referred to in my immediately preceding telegram. [2] *Begin verbatim text.*

China Trade Controls.

1. At the Bermuda Conference United Kingdom Ministers urged that any coordinated list to be proposed by the United States Government for China and the Soviet Bloc should be one which could command general respect; and that any proposal merely to add certain items from the China list to the Russian list would not, in the United Kingdom view, obtain general acceptance.

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[1] Source: Department of State, Central Files, 493.009/5–1457. Secret; Priority. Repeated priority to Paris for USRO.

[2] In telegram 6178 from London, May 14, Ambassador Whitney reported that Lloyd called him to the Foreign Office on the afternoon of May 13 and gave him a memorandum regarding China trade controls. "He stressed urgency of problem," the telegram reads, "noting that situation in House of Commons is becoming increasingly difficult." Regardless of developments in Commons, Lloyd explained, pressure from the Conservative Party as well as the opposition party "is such that decision cannot be delayed beyond another ten days." (*Ibid.*)

2. As the United States Government has been made aware, the United States proposals as presented to the China Committee do not meet the substance of the United Kingdom position.

3. In particular the following aspects of the United States proposals present serious difficulties:

(a) Of the existing China "differential" of nearly 300 items, only 157 items would be dropped;

(b) A strict control would be maintained on those items on which there is great pressure for relaxation from United Kingdom trading interests (e.g. land rovers; heavy tractors; diesel engines; certain chemicals; locomotives; surveying instruments; ball-bearings etc.);

(c) In addition, certain of the items which can now be exported to China subject only to notification, would in future require the prior approval of the China Committee, under a very strict procedure for consultation and justification. This retrograde move would cover items of importance to United Kingdom trade, such as small generating sets; motor trucks; civil engineering and road-making equipment; some mining machinery; tires for farm tractors; as well as rubber, an item of vital concern to Malaya and Singapore.

4. Quite apart from commercial considerations, the United Kingdom remains strongly opposed to controls which in practice maintain a differential between exports to China and exports to the Soviet Bloc.

5. The discussions in the China Committee of May 7 and May 9 have shown that United Kingdom disappointment at the United States proposals was shared by almost all the other members of the China Committee.

6. There is widespread resentment in the United Kingdom at the absence of a satisfactory solution to this problem. Countries which do not have the general support of COCOM member countries are not acceptable to United Kingdom opinion. Moreover, the present unsatisfactory situation can only undermine the entire strategic control system.

7. In view of parliamentary pressure in the United Kingdom, this matter is one of urgency for H.M. Government.

8. H.M. Government understand that the United States Delegation in the China Committee may be ready for further discussions on May 17. H.M. Government cannot contemplate prolonged discussion on such an unsatisfactory basis as the present United States proposals and they earnestly trust that on May 17 some radical modification of those proposals will be possible.

Whitney

161. Memorandum From the Deputy Under Secretary of State for Economic Affairs (Dillon) to the Secretary of State[1]

Washington, May 15, 1957.

SUBJECT

China Trade Controls

The U.K. and Japan are anxious to eliminate the China differential entirely. While almost all the other countries agree with the U.K. and Japan in principle, they also wish to avoid a break with the U.S. and therefore are desirous of reaching a compromise acceptable to both the U.S. and the U.K. Lloyd has recently indicated to Whitney that a compromise might be possible.

In my opinion that basis for a compromise *acceptable* to the U.K. would be the following:

1. Agreement by the U.S. to the decontrol of all items on the consolidated China special list (207 item list) that we are unable to justify on strategic grounds to our allies for inclusion on the Soviet List III. We have proposed the addition of 35–50 items. I assume that we could only reach general agreement to add relatively few of these items to List III. The final agreement would actually have to be a horse trade.
2. Extension of the milder exception procedure (Section 782) to all items on List III. It is presently applicable to only 11 out of the 63 items on List III.
3. Agreement to review List III at a later date to see if any items could be dropped.

I do not feel that steps 1 and 2 require further consideration by the NSC although you may find it adviseable to review them with the President. They have both been approved in the EDAC by representatives of all agencies except State which has so far reserved its position.

Before agreement could be given to dropping any item from List III an NSC decision would be required. An NSC decision would not be needed, however, for Item 3 above as all members of COCOM have the right to ask for such a review at any time.

The British have told us that their Parliamentary position is such that they must come to a decision during the course of next week. If we decide to offer a compromise as indicated above it would be advisable for the President to send a letter to Macmillan outlining it as our irreducible minimum position. News that such a letter was on its way should reach London by Monday next, and the letter itself should be delivered not later than next Tuesday.

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[1] Source: Department of State, Central Files, 460.509/5–1557. Secret.

162. Telegram From the Embassy in Japan to the Department of State [1]

Tokyo, May 16, 1957—6 p.m.

2634. Reference Paragraph 9 Polto 2691 [2] repeated Tokyo Polto 28. As Department aware I urged Kishi to support United States proposals in CHINCOM. After consideration he took position differential between CHINCOM and Communists should be abolished. Position Kishi has taken reflects virtually unanimous view of Japanese people in all walks of life including socialists, conservatives, business, industry and labor and therefore is a domestic political issue of great importance to Kishi.

Because of tremendous pressure in Japan from all sectors of national life I doubt that Japanese Government will be disposed to accept position that is less liberal than position Britain is willing to accept.

Kishi however may possibly modify position to abolish differential if we are forthcoming enough and show sufficient flexibility in our position.

We must, of course, try maintain differential at highest feasible level but my fear is that if we try to maintain differential at too high level we risk collapse CHINCOM structure which will inevitably have effect on maintaining entire voluntary control structure.

I doubt that further representations to the Japanese Government will prove productive unless the modifications of United States proposal outlined paragraph 6 reference telegram are approved for presentation in Paris. In that case I can urge Japanese Government to support revised United States position although there is no certainty that suggested modifications will be acceptable to Japanese.

MacArthur

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[1] Source: Department of State, Central Files, 493.009/5–1657. Secret. Repeated to Paris and London.

[2] Dated May 14; paragraph 9 reads as follow:

"USDel unaware possible recent discussions between Embassy Tokyo and Japan Government. However view intransigent position Japan delegate and his strong statement made today in CHINCOM criticizing United States proposal and politico-strategic rationale therefor, USDel and Washington team recommend Washington consider representations either by Department or in Tokyo urging some flexibility Japan position and sympathetic consideration United States proposed modification re exceptions procedures." (*Ibid.*, 493.009/5–1457)

163. Memorandum From the Secretary of State to the President [1]

Washington, May 16, 1957.

SUBJECT

China Trade Controls

We have reached a rather critical phase in our negotiations with the British, Japanese, French, et al., with reference to China trade controls.

I received yesterday a strong memorandum from Selwyn Lloyd pointing out that the British would have to gain greater freedom in respect to China trade and do so quickly because of their parliamentary situation. He also said that there was rising criticism of the United States in areas where there was unemployment, which was ascribed, rightly or wrongly, to our refusal to let them trade with China. The Japanese are in this matter aligned closely with the United Kingdom.

Mr. Dillon, who is handling this matter for us, believes that we can obtain agreement with the United Kingdom only if we agree to a substantial reduction of the present differential between China trade and Soviet trade. We could perhaps maintain a differential to the following extent:

1. Prohibiting the sale to Communist China of items which, as regards the Soviet Union, are on a quantitative limitation basis;
2. While maintaining the *principle* of embargo in the case of China for those items which, in the case of Russia, are on a "watch" basis, agreeing that they, or most of them, be subject to the so-called "exceptions procedure". This would allow sale of these items by our allies after advance notification so as to permit of our interposing objection if this seemed desirable and feasible.
3. Adding to the list dealt with in paragraph 2 above a few items which are now not on any of the Russian lists. However, these additions would probably not be of great significance.

From the standpoint of our Congressional relations and probably from the standpoint of our relations with such anti-Communist allies as Korea, Formosa, Vietnam, Thailand and the Philippines, we would be better off to let the British, Japanese, etc., "go it alone". Walter Robertson believes, and I am inclined to concur, that it would be better for us to let the British, Japanese, etc., "go it alone" because the fact of our acceding to a substantial elimination of the China differential would be widely regarded in Asia as foreshadowing a policy of lessening opposition to the Chinese Communists which might precipitate widespread efforts by Asian countries to seek an accommodation with Peiping.

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[1] Source: Department of State, Central Files, 460.509/5–1657. Secret. Another copy is in Eisenhower Library, Dulles Papers, White House Memoranda. According to a handwritten note on that copy, the memorandum was carried to Eisenhower by Dulles for their meeting of May 17. Also attached to that copy was the draft of a suggested message from the President to Prime Minister Macmillan and the draft of a suggested message from Dulles to Foreign Minister Lloyd.

On the other hand, to split with the British, Japanese and most of the other trading countries on this issue would obviously have undesirable implications. If they start "going it alone", we cannot be sure that they will stop with the present measures. These could constitute a precedent which, if pursued, could lead to a breakdown of the basic strategic controls which apply both to the Soviet Union and to China. Also it would give rise to somewhat greater anti-foreign sentiment in the Congress which may militate against assistance to, and cooperation with, our European allies. If we agree with them, we will absorb some of the criticism which otherwise they alone would bear.

My suggestion is that you and I should send messages to Macmillan and Lloyd, respectively, to the effect that we cannot go all the way to meet them and that they must go further to meet us, and then that we give Douglas Dillon, who is directing negotiations, discretionary authority within what we interpret to be the latitude permitted by the NSC decision.

Matters are coming to a climax and some centralized authority to act quickly is necessary.

I attach the suggested messages referred to.[2]

JFD

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[2] Secretary Dulles met with the President at 10:45 a.m. on May 17: "We discussed China trade controls. The President indicated his feeling that basically Communist China and Soviet Russia should be treated alike. He went over my memorandum, however, and approved it, as well as the prospective cables from him to Macmillan and from me to Selwyn Lloyd." (Memorandum of conversation by Dulles; *ibid.*, Meetings with the President)

164. Telegram From the Department of State to the Embassy in the United Kingdom [1]

Washington, May 17, 1957—1:21 p.m.

8070. Please deliver following from President to Macmillan:

"Dear Harold: Foster has just been talking to me about the China trade situation and the message which he is sending to Selwyn Lloyd [2] in reply to Selwyn's memorandum which he gave to Jock Whitney on the evening of May 13th. [3]

Our military advisers are strongly of the opinion that many of the items which you would take off the China list will in fact appreciably help the Chinese Communists to build up the military potential which threatens us in this area and which we have the primary responsibility to resist. Our Congress, although less well informed on the technical details, feels strongly on this issue. As Foster is saying to Selwyn we do not feel confident that increasing the list will really help your trade very much. May it not mean merely that China's trade with you will consist of the more strategic rather than the less strategic items?

We are, however, giving some new discretion to our representatives in Paris and hope very much that you will try to meet us as it would be unfortunate in many respects if we should split publicly on this issue.

Faithfully yours, D.E."

Please observe Presidential Handling.

Dulles

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[1] Source: Department of State, Central Files, 493.119/5–1757. Secret; Niact; Presidential Handling.

[2] *Infra.*

[3] See Document 160.

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165. Telegram From the Department of State to the Embassy in the United Kingdom [1]

Washington, May 17, 1957—1:21 p.m.

8071. Please deliver following from Secretary to Selwyn Lloyd:

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[1] Source: Department of State, Central Files, 493.009/5–1757. Secret. Niact; Limited Distribution.

"Dear Selwyn: I have your note of May 13th about the China trade controls. We are very anxious to find a basis for agreement and not to put added strain upon our relations. However, we cannot go all the way to meet you and in effect wholly abolish the differential. In our opinion, this differential has a real significance in retarding the buildup of Communist China's vast military potential. On the other hand liberalizing the list will not, we believe, lead to any substantial increase in the volume of trade. It will, I fear, mean that the Chinese Communists' rather limited possibility of buying abroad will merely shift from less critical to more critical items, the total value remaining substantially static.

However, we are giving increased discretion to our negotiators in Paris in a genuine effort to achieve a result which you can accept and thus keep our cooperation going in this field. But as I say, we cannot go all the way that you would want.

What we are doing represents a great effort within the Executive Branch of Government and with the Congress to meet you. But if this is not acceptable, and you should decide that you are unable to continue cooperation with us in this area, it will, of course, have a bad reaction in this country. We shall do our very best to hold those reactions to a minimum, but we cannot give any assurance that it will not have troublesome repercussions.

Sincerely yours,-Foster"

Dulles

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166. Editorial Note

At the CHINCOM meeting of May 17, the United States Delegation presented a modified set of proposals on the China trade control question. According to the United States proposal, an embargo would be maintained on 26 items on List II and 52 items on List III, all of which would continue to be subject to very strict control with prior consultation and quid pro quo justification. Topol 2172 to Paris, May 13, had instructed the United States Delegation to present a proposal along those lines. (Department of State, Central Files, 493.009/5–1157)

At that meeting, the United Kingdom regretted that it did not regard these new proposals as providing the basis for an agreement, since the United States proposals did not meet any of the criteria on which the French proposal was based and which the British had fully supported. The text of the British remarks were transmitted to the Department in Polto 2730 from Paris, May 17. (*Ibid.*, 493.009/4–1757)

Polto 2739 from Paris, May 17, offered the United States Delegation's comments on the future development of the China trade control negotiations, suggesting several different courses of action which the United States might follow. (*Ibid.*, 493.009/5–1757) Polto 2741 from Paris, May 17, commented on the reactions of the various Participating Countries to the United States proposals of May 17, noting that "no delegate accepted US proposal." Polto 2740 from Paris, May 17, reported that the positions of the various delegates regarding the United States and French proposals introduced on May 7 "remain essentially unchanged." The majority of the Participating Countries, it noted, "still favor French proposal and, either support it completely, or state solution must be found close to that proposal." (*Ibid.*)

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167. Memorandum of a Conversation, Department of State, Washington, May 20, 1957 [1]

SUBJECT

China Trade Controls

PARTICIPANTS

Sir Harold Caccia, British Ambassador
Mr. G. Thorold, Economic Minister, British Embassy
Mr. C. D. Dillon, Deputy Under Secretary
Mr. C. S. Whitehouse, W

Sir Harold Caccia and Mr. Thorold called on Mr. Dillon at his request this afternoon to discuss the question of China trade controls. Mr. Dillon stated that high level messages had been sent to London on this subject. The Ambassador replied that he had received copies of these messages. Mr. Dillon went on to review the background of the China Controls Negotiations and stressed the concessions already made by the United States delegation. He emphasized the importance of reaching an agreement which, while permitting increased trade in items of minor strategic importance, would nonetheless maintain more than a token differential.

Mr. Dillon drew the Ambassador's attention to provisions in the Battle Act which required economic and military aid to be withdrawn from countries which were not "effectively cooperating" in East-West trade controls. He emphasized that the Department was in no way threatening the UK with this possibility but that he felt that it was important that the British Government be aware of this statute, adding that the President had no discretion on Title II items. He made it clear that we felt it most important that no statements be made which might result in the UK being accused of *not* "effectively cooperating" at this time. Mr. Dillon recalled the case of Ceylonese rubber in which a shipment to China of this strategic commodity had been condoned owing to the special circumstances which applied at the time.

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[1] Source: Department of State, Central Files, 493.009/5–2057. Secret. Drafted by Whitehouse.

[Here follows discussion of unrelated subjects.]

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168. Letter From Prime Minister Macmillan to President Eisenhower [1]

London, May 21, 1957.

DEAR FRIEND: I have thought a great deal about your message to me of the 18th [*17*] of May. [2] Of course I always want to work in the closest harmony with you. But this Chinese business has become almost as much an obsession with us as it appears to be with your Congress. Quite between ourselves as old friends I do not think there is much in it. You say that if we get what we want the Chinese will only switch their trade from one item to another. That may very likely prove true but traders never think like that. Each individual firm and industry believes that it can increase its own sales, and of course in our country, which only lives by exports, this is quite an important factor.

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[1] Source: Department of State, Presidential Correspondence: Lot 66 D 204, Macmillan to Eisenhower Corres. Confidential. Ambassador Caccia forwarded this letter to President Eisenhower. On May 21, Caccia also forwarded a letter from Macmillan to Dulles. That letter reads as follows:

"In the absence of Selwyn with The Queen I am sending you a copy of a message I have sent to the President today. I know that you fully understand our point of view and I am grateful for all you have done to help. If, as I fear, a compromise solution proves unobtainable, it would seem better at least to get this thing out of the way and I hope you will feel the same. We have so many things that we must do together that it seems better to face this issue now. But I ought to say how grateful I am for the understanding you have shown throughout." (*Ibid.*, Macmillan to Dulles)

[2] See Document 164.

If there is any chance of a compromise that gives us the substance of what we want and you something to argue with Congress, then of course we will accept it. You will say that this is not much of a compromise, but that is the way of the world. Frankly I would much rather have an agreement with you than a disagreement. But if, as I assume, we cannot get a compromise of this kind, I am very sorry to tell you that I shall have to stick to the line shared by that large number of countries, including the great majority in Europe, who want to bring the Russian and Chinese List together.

I feel that this is not really a great issue compared to the immense problems that you and I have to face. It is just a matter of handling our people. It is very hard to persuade the English that the Chinese are more dangerous than the Russians but I realise that the reverse is the case with your people. I feel sure that it may be better to get this difference settled rather than let it go on and poison our relations. We have so many problems much more important than this which we have got to face together.[3]

As ever,

Harold[4]

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[3] Telegram 6404 from London, May 22, reported that Embassy officers were informed by the Foreign Office of Macmillan's reply to Dulles' letter to Lloyd. "Foreign Office reiterated," the telegram reads in part, "that while UK would prefer agreement rather than disagreement, domestic political pressures had brought ministerial decision that precluded acceptance any plan which did not effectively eliminate differential, including possibility trade in I/L–II goods on par with European Soviet bloc." It stated further that in reply to an Embassy officer's query, a Foreign Office official "stated that even if compromise accepted by majority other PCs but did not substantially meet UK goal elimination differential, UK would hold to present decision 'even if isolated' and would be forced to 'go it alone'." (Department of State, Central Files, 493.009/5–2257)

[4] Printed from a copy that bears this typed signature.

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169. Editorial Note

At the CHINCOM meeting of May 21, the United States Delegation presented another compromise proposal on the China trade control question. The proposal followed the Department's instructions in Topol 2219 to Paris, May 19. (Department of State, Central Files, 493.009/5–1957) Polto 2766 from Paris, May 21, reported that the British and Japanese Delegations declared the United

States proposals unacceptable as a basis for negotiation at that meeting. "Other delegates which commented," the telegram stated, "while expressing appreciation, said still not adequate, stressing majority favor French proposal." The telegram also reported that the CHINCOM chairman suggested that a group of Delegates, acting personally and not as delegates, attempt to develop a compromise proposal that might be acceptable as a basis for further discussion in CHINCOM. (*Ibid.*, 493.009/5–2157)

Polto 2769 from Paris, May 22, transmitted to the Department the texts of two proposals for China controls developed that evening by the informal CHINCOM group. Proposal A called for the maintenance of the status quo on List II items for 12 months; the application of Document 782 procedure to 11 items and possibly some additional items on List II; the disposition of 35 items, subject to immediate review and, for the time being, application of the Document 782 procedure; and review of the whole control system for China after 12 months. Proposal B called for the maintenance of the status quo for List II items for 12 months; the application of immediate reporting after licensing procedures for 11 items on List III, with the remainder subject to Document 782 procedure; disposition of 35 items, subject to immediate review and, for the time being, application of the Document 782 procedure; and review of the whole control system for China after 12 months. (*Ibid.*, 493.009/5–2257)

Topol 2250 to Paris, May 22, authorized the United States Delegation to support Proposal A, but not Proposal B, indicating that "while compromise goes beyond US proposals in CHINCOM, US prepared accept in interests preserving a consensus on effective continued CHINCOM controls." (*Ibid.*) At the CHINCOM meeting of May 24, eight of the Participating Countries accepted Proposal A, while five others rejected it, one abstained, and another requested instructions from its government. The Department reported the results of the meeting of May 24 in telegram 2598 to Tokyo, also sent to Copenhagen, Lisbon, and Oslo. The telegram explained that the "Department wishes make final further attempt isolate UK as completely as possible." It stated that the Department had already been in touch with the Embassy in Ottawa in an effort to persuade the Canadian Government to support Proposal A and instructed the missions receiving the telegram to approach the respective governments "at highest level likely produce satisfactory results," informing them of the importance that the United States attached to the multilateral trade control issue and urging them to support Proposal A. (*Ibid.*, 493.009/5–2357)

170. Telegram From the Department of State to the Embassy in France [1]

Washington, May 24, 1957—7:49 p.m.

4719. Excon. China Trade Controls.

Dillon today called in Alphand to review China trade controls. Alphand was not informed on most recent developments, but said he had talked with Pineau after earlier presentation and found him very sympathetic to US view. Dillon explained that only important trading country now in position supporting British is France and urged consideration by France of desirability shifting position so as to maintain cooperative international arrangement. Maintenance of French position will inevitably affect Franco-American relations in other fields during coming months. Emphasized that Americans feel about China as France feels about Egypt, that US carries free world defense burden in Far East, and that failure to reach agreement likely have most unfortunate repercussions on US public opinion and Congressional circles despite what US Government might like or want. There is a feeling on part of Government at highest levels that other countries may not properly recognize US responsibilities or how we feel in the circumstances. Referred to fact that Japan is now prepared accept compromise proposal A, as well as a number of other trading nations. Further emphasized that elimination differential would probably not alter size of China trade but simply change composition to include items of greater strategic interest to Commie China. Alphand agreed that problem of trade with China was not important either politically or economically to France. He promised advise his Government at once and implied he would support US position of urging his Government accept proposal A.

Alphand informed Dillon that he had recommended to Paris that French support US compromise position in May 21 meeting. In view fact French Govt did not follow Alphand's recommendation and has not bothered to inform him of recent developments, we concerned that his cables may not be getting high level consideration due present political crisis.

Therefore request Ambassador call on Pineau or Mollet this weekend to emphasize US position and urge acceptance Plan A compromise by Monday in final effort forestall UK unilateral action. French should also be asked to urge British at high level to accept majority desire for Plan A solution and refrain from unilateral action.[2]

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[1] Source: Department of State, Central Files, 493.009/5–2457. Secret; Niact. Drafted by Dillon and Willis C. Armstrong and approved by Dillon. Sent niact to Paris for Ambassador Houghton and passed to USRO/ST; repeated to Bonn, London, Ottawa, and Tokyo.

Dulles

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[2] In telegram 6029 from Paris, May 25, Ambassador Houghton reported that he called on Foreign Minister Pineau that afternoon to press again U.S. views on China trade controls. He reviewed the CHINCOM discussions and urged French acceptance of the Plan A compromise, pointing out that France was the only important trading country now supporting the United Kingdom. Houghton stressed Dulles' and Eisenhower's concern about this matter and asked the French to approach the British "at high level" and urge them to accept the desire of the majority of the PC's for Plan A. "At this point," the Ambassador reported, "Pineau replied latter point academic since he was informed that British Cabinet this morning decided definitely abolish CHINCOM controls for Britain. Re French support of Plan A, Pineau stated France unable change position supporting Plan B and British since decision do so originally taken by Cabinet prior fall Mollet Government and care-taking cabinet now empowered alter this decision. Furthermore, FonMin declared any reversal of support for British would have serious effect France-British relations." (*Ibid.*, 493.009/5–2557) The Mollet government fell on May 21.

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171. Letter From Foreign Secretary Lloyd to Secretary of State Dulles[1]

London, May 25, 1957.

DEAR FOSTER: I returned from Denmark this morning and have been discussing with Harold and other colleagues the question of China Trade Controls. Like you I am very anxious to find a basis for agreement. I feel, however, that to reach an agreement which would not in substance abolish the differential would mean continued bitterness and recrimination in this country. As you know to differentiate between China and the Soviet Union seems wholly illogical to every shade of political opinion here. If we now make an agreement maintaining the differential we shall be under constant pressure to take the matter up with you again and considerable harm could be done to our good relations. Therefore, we feel that it is right to grasp the nettle now. Quite frankly the two compromises put forward in the committee this week leave the differential in existence and affect a number of items regarded by our exporters as of the essence of the problem. Therefore we have decided that our line at the meeting on Monday[2] will continue to be that the differential should be abolished. In an effort, however, to help, we shall tell the Committee that we will willingly cooperate to see that quotas so far as certain items subject to quantitative control are concerned are kept as low as possible. There can be detailed discussion about these items between officials. Secondly, we will say that we will seek to speed up the watch procedure for items on the Watch List. We will certainly co-operate in seeing that the China Committee has full information rather more speedily than has been the case in the past over Watch List items for Russia. I am afraid that this decision will be unpalatable but I believe that it is the only basis upon which we shall keep any system of strategic controls generally accepted and working in practice.

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[1] Source: Department of State, Central Files, 493.009/5–2557. Delivered to the Department by Coulson on May 25. Following delivery of the letter a brief conversation took place between Coulson, Armstrong, and Wright. The source text was attached to a memorandum of that conversation, drafted by Wright.

I am most grateful to you for your personal efforts to try to work out a basis for a compromise and I know that you will do your best to limit the reactions to our decision in the United States. We too will try to do all we can to play down this difference of opinion.[3]

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[2] May 27.

[3] The source text is not signed. The Department transmitted a copy of this letter to the Embassy in telegram 8268 to London, May 25. (Department of State, Central Files, 493.009/5–2557)

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172. Memorandum of a Telephone Conversation Between the Secretary of State and the Deputy Under Secretary of State for Economic Affairs (Dillon), Washington, May 25, 1957, 5:40 p.m.[1]

TELEPHONE CALL FROM MR. DILLON

Mr. Dillon said that the British had delivered today a note from Selwyn Lloyd on China. The note was friendly but it added up to "no dice". Mr. Dillon said he could deliver it but he did not think it required an answer. The Secretary said he was going out and he need not bother.

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[1] Source: Eisenhower Library, Dulles Papers, General Telephone Conversations. Transcribed by Asbjornson.

Mr. Dillon said that Selwyn Lloyd had stated he was grateful to the Secretary for his work on trying a compromise. Dillon said he would have the note on Monday.[2]

The Secretary said that the Pres. had sent the note to Macmillan. Dillon said we were pushing the French very hard and if the French reverse their position on Monday there might be a hope that the British might do differently. The Secretary asked if there was anything more that could be done for the French. Dillon said we had hit it awfully hard. He had seen Alphand.

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[2] May 27.

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173. Editorial Note

At the China Committee meeting of May 27, the British Delegate stated that his government had decided to eliminate the China differential. The text of his statement was transmitted to the Department in Polto 2828 from Paris, May 27. (Department of State, Central Files, 493.009/5–2757) On May 29 Prime Minister Macmillan explained the British decision in a statement to the House of Commons. The British Foreign Office provided the Embassy in London with an advance text of Macmillan's statement, which it transmitted to the Department in telegram 6546 from London, May 29. (*Ibid.*, 493.009/5–2957)

On May 30, the Department of State issued a press release expressing its disappointment with the British decision. For text of the press release, see Department of State *Bulletin*, June 17, 1957, pages 967–968.

174. Letter From Prime Minister Macmillan to President Eisenhower[1]

London, May 29, 1957.

MY DEAR FRIEND: Many thanks for your letter of May 24.[2] I will write to you a little later about some of the other points you mentioned, but I should reply at once about the Russian-Chinese trade question. I am very glad that you understand our special difficulty about this matter. As you realise, the commercial interests of our two countries in this are not at all alike. We live by exports—and by exports alone. So I feel that we cannot any longer maintain the existing differential between Russian and Chinese trade and we shall be making a statement to this effect in Parliament tomorrow.

The Russian list is an extensive one, covering over 250 items, and so trade with China will still be severely limited. Indeed we believe that a common list will prove to be the right way of maintaining a viable system of control over trade with Communist countries. Most of the other countries concerned seem to think that what we propose is common sense.

Of course we shall stress that we mean to continue co-operating with you and our allies in controlling trade with both the Soviet bloc and China in the interests of our mutual security. I trust that this will be made clear also in the United States. There is no division of view on this and we shall emphasise this again. I agree that we must try to play down this difference of view between us and do all we can to prevent the misconception that we have different policies on strategic controls, or on the great issues that lie beneath all this.

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[1] Source: Eisenhower Library, Whitman File, International File. Secret.

[2] That letter reads in part:

"I have been trying to follow in a general way negotiations going on between the several countries on the Russian-Chinese trade differential. As an individual I agree with you that there is very little of profit in the matter either for your country or for any other. Commercially, it affects this nation not at all, for the simple reason that we have a total embargo on Chinese trade. However, many of our people think that the free nations could make a terrific psychological blunder in this matter and possibly even lose all the areas of the Southeast that have strong Chinese minorities.

"We understand your predicament and even though we may be compelled, in the final result, to differ sharply in our official positions, I think that each of our Governments should strive to prevent the possible popular conclusion in its own country that we are committed to going 'separate ways'." (*Ibid.*, DDE Diaries)

I will write to you as soon as I can about the other points you mentioned.[3]

All good wishes,

Yours ever,

Harold

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[3] On June 3, Eisenhower sent another letter to Macmillan. It reads in part: "I note that you have made your statement of policy on the China trade affair. While there was some unfavorable comment here in the States, both political and editorial, I am relieved to note that it has not caused the furor that could have taken place. I have heard nothing yet of the reaction in the South East Asian countries." The letter was transmitted in telegram 8434 to London. (Department of State, Central Files, 493.419/6–357)

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175. Memorandum by the Under Secretary of State for Economic Affairs (Dillon)[1]

Washington, June 4, 1957.

MEMORANDUM ON CHINA TRADE CONTROL NEGOTIATIONS

Negotiations on multilateral China trade controls began in CHINCOM on May 7. The French proposed immediate abolition of all special China controls except for the 25 items under quantitative control to the Soviet Bloc. Quantitative limits for the export of these items to China were to be set within six months. In accordance with NSC 5704/1 the United States, while seeking to maintain a significant differential in the level and severity of controls applied to Communist China as compared with the Soviet Union, proposed a substantial relaxation of the existing special China controls. After hearing the two proposals, twelve of the sixteen participating countries, led by the U.K., supported the French proposal, and it became obvious that the initial United States position would have to be modified if any agreement were to result.

During the course of the ensuing negotiations the United States made a number of relatively important concessions in an attempt to reach agreement. While these concessions did not rally any substantial support, they markedly changed the atmosphere of the negotiations and led four of the countries to formulate jointly a possible compromise solution.

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[1] Source: Department of State, Central Files, 493.509/6–457. Secret. Forwarded by Dillon to Randall on June 4.

This plan would have maintained a differential on China trade, essentially limited to the 25 items under quantitative control to the Soviet Union, and represented the maximum concession possible if a differential was to be maintained. In a final attempt to reach agreement it was accepted by our delegation without change.

This compromise was also supported by the Germans, the Benelux countries, the Italians, Turks, and Greeks, a total of eight countries, including the United States. The Canadians maintained a neutral position. Led by the United Kingdom the plan was opposed by France, Japan, Norway, Denmark and Portugal.

At this point it became clear that the only hope of moving the United Kingdom was to rally unanimous support for this compromise from the other countries. Determined efforts to sway these countries were unsuccessful, and, at least in the case of France, it became clear that there must have been a prior binding commitment to support the U.K. position to the end.

The result was the declaration by the British of their intent to proceed on their own to terminate the differential entirely. This will force the other countries to follow suit and the China trade differential is therefore gone. All countries have agreed, however, to apply to Communist China the same controls now applied to the Soviet Bloc countries in Europe; and there will be a negotiation of quotas for China on the List II (quantitative control) items.

While we were unsuccessful in maintaining the differential, our negotiators succeeded in aligning a majority with us, proved that we were flexible and cooperative, and created by their reasonableness, substantial good will among all the other negotiating countries.

If we had been able to accept something like the proposed compromise about six months or a year ago, we might have been able to retain a significant differential. Our failure to consider a modified position at an earlier date apparently led the British to conclude that our concessions would never be enough to suit them, and consequently to promise their domestic pressure groups, before negotiations began, that they would not agree to the maintenance of any differential at all. Although they recognized that we had gone a long way to accommodate ourselves to their problem, they were apparently so firmly committed that they could not consider our position on its merits.

C.D. Dillon [2]

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[2] Printed from a copy that bears this typed signature.

176. Memorandum of a Conversation, White House, Washington, June 4, 1957[1]

SUBJECT

Presentation of Credentials to President Eisenhower by the Japanese Ambassador

PARTICIPANTS

The President
The Ambassador of Japan, Koichiro Asakai
The Chief of Protocol, Wiley T. Buchanan, Jr.

[Here follows discussion of unrelated subjects.]

The Japanese Ambassador then (he told me he would not have discussed anything of the substantive nature had not the President opened the discussion) commented on the easing of trade restrictions with Red China. He stated to the President that the decision by Great Britain had put the Japanese Government in an extremely embarrassing position and further stated that the Japanese Government's primary interest was in continuing their position at the side of the United States Government, though an action such as the British made it difficult. The President said he appreciated that and realized that there would be many times when there would not be an identical position taken by all of our allies. He pointed out that we had not agreed with the French and British in the Suez crisis but that we had stuck to the policy that we felt would be just. Then he elaborated to the Ambassador that he felt that no doubt France would follow suit in trading with Red China and after France, possibly Italy and others. He continued that he felt it extremely important for Japan with ninety million people and an agrarian territory the size of California to trade for their very survival. The President added that the Administration had more or less inherited the position of the embargo on the Red Chinese and he was more or less of the opinion that it was wise to trade as much as possible with practically all nations. He stated he felt that one could in many instances interest the people in these countries in our way of life and in his opinion a corollary objective was not to allow their own countries, in this instance Japan, to be honeycombed with red cells which would "fascinate the peoples of their country with another way of life." The Ambassador thanked the President for his understanding position and stated that he hoped there would be as little disagreement as possible in our negotiations between the two countries.

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[1] Source: Eisenhower Library, Whitman File, International File. Confidential. Drafted by Buchanan.

177. Memorandum From the Director of the Office of Chinese Affairs (McConaughy) to the Assistant Secretary of State for Far Eastern Affairs (Robertson) [1]

Washington, June 5, 1957.

SUBJECT

Proposed Referral of China Trade Control Policy to the NSC

1. The Problem

In a meeting on June 4 the Executive Committee of EDAC concluded that the US had "pursued to the end" its China trade control policies as set down in NSC Document 5704/1 (Tab A) and, therefore, a further top level directive is immediately necessary.[2] It was agreed that the Executive Committee should meet again on June 6 to redraft portions of that document (presumably primarily paragraphs 20 and 21) to reflect the changed conditions.

The discussion leading to this conclusion is summarized in section 2 below.

The Defense member, Colonel Green, reported that he understood that Secretary Wilson is bringing this matter into the NSC directly although he added a caveat that the meeting in which this action is being decided was still in session. (Presumably this would mean by-passing EDAC and CFEP.) After the meeting he also hinted that Admiral Radford was going to the Hill, presumably in part in this connection.

2. Background

The members of the US technical advisers team returning from Paris reported to the Executive Committee of EDAC that CHINCOM is about to have a practical breakdown as a result of unilateral action by one country against the clear majority view that unilateral action is not proper; that the views of the PC's are mixed partly because of the following reasons:

(a) Each country faces the problem of coordinating the scope of its own relaxation of controls with the action of the UK.

(b) France continues to maintain the existing CHINCOM controls principally because of the absence of a duly constituted government rather than for more fundamental reasons.

(c) Italy did not take a position for similar reasons.

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[1] Source: Department of State, Central Files, 411.93/6–557. Secret. Drafted by Louis Mark, Officer in Charge of Economic Affairs, Office of Chinese Affairs.

[2] Minutes of this meeting were not found in Department of State files. There were no tabs attached to the source text.

(d) Japan's position is conditioned by the impending Kishi visit to the United States.[3] (The German position was not mentioned.)

It is under such circumstances, returning team members stated, that the US must face the British desire to establish List II quotas for China immediately.

The Chairman of the Executive Committee proposed, and his proposal was accepted by the Committee, that we had "pursued to the end" the policy outlined in NSC Document 5704/1, and he made specific reference to paragraph 21. The Commerce member noted that even by being present at CHINCOM meetings the USDel would be exceeding its authority; the Chairman added that we must have a change of policy from the top.

The State member brought up the possibility of instructions to the USDel to negotiate further after making it clear to CHINCOM that the USDel is doing so without prejudice to the US position, but in the ensuing discussion the Commerce member held that "no matter how you slice it" the US would be acquiescing to the British action in unilaterally eliminating the China differential. The representative of Commerce on the Paris team added that in his view all further discussion must be preceded by a US policy decision.

3. Possible Next Steps

The following alternatives might be considered prior to NSC action:

A. To consider the China Committee as effectively terminated due to the consequences of the unilateral action of one power and favor the transfer of the control mechanism on China to COCOM.

B. Not to accept the view that all NSC authority is now fully exhausted since there still is a possibility to negotiate some token differential. For example, it might be possible to require prior notification to CHINCOM on shipments of certain List II items to China for which no Soviet bloc quotas exist and which are handled in COCOM under ex post facto notification.

The following alternatives might be open to the NSC:

C. Not to agree to List II quotas for Communist China but be prepared to participate in the examination of the problem. (This attitude can be maintained while the USDel probes views of others.)

D. The US can recognize that it is faced with a fait accompli and undertake to participate in List II quota negotiations for China. (The USDel was informed in paragraph 5 of the Dept's telegram[4] (Tab B) that the US would be prepared to participate in quota negotiations for China. This instruction, drafted in E and concurred in by Mr. Dillon and Admiral DeLany (but not cleared by FE), would seem to have anticipated NSC action, if in fact the Executive Committee's view that further NSC action is mandatory proves valid.)

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[3] Japanese Prime Minister Nobusuke Kishi was scheduled to visit the United States June 19–21.

[4] Reference is to Topol 2299, May 27. (Department of State, Central Files, 493.009/5–2757)

Conclusion

Alternatives B and C seem to offer tenable temporary positions until the lineup of PC's whose positions are not clear or final (Canada, Italy, France and Japan) are fully determined. The assumption of such an intermediate position would enable us to support German proposals for the more restrictive handling of List II items. I think that it may be worth while to take now a position valid only in the short run because as indicated by the German example concern at disruption of Western unity may lead to a stiffening attitude on the part of some PC's. Also, although we do not wish to read too much into it, the UKDel's statement in CHINCOM May 27 contained a clear implication that UK would be willing to accept low quotas (Tab C paragraph 5).

Recommendation

That you discuss this matter with Mr. Dillon with a view to seeking his agreement for an interim position in order to permit the USDel to explore the situation resulting from unilateral UK action before the necessity for NSC action is considered further.

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178. Telegram From the Embassy in Japan to the Department of State [1]

Tokyo, June 6, 1957—4 p.m.

2881. Kishi opened discussion CHINCOM by noting events had taken "unexpected turn" during his absence. [2] He felt it most regrettable that nations had not been able reach agreement. He understood however that talks in Paris would continue and expressed hope free nations would be able recapture unity on issue. He said he felt strongly that free world nations must refrain from any actions likely threaten their unity.

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[1] Source: Department of State, Central Files, 493.009/6–657. Secret; Priority; Limit Distribution.

[2] Prime Minister Kishi had recently returned from a trip to South and Southeast Asia.

I said I would report his views on CHINCOM which I knew would be appreciated. I said I would also appreciate any specific information Kishi might care to give regarding Japan's present plans for licensing exports and position to be taken in future CHINCOM discussions Paris.

In reply Kishi, who evidently has been well briefed on subject, said he could assure me Japan would refrain from taking in immediate future any such drastic measures as UK. As temporary measure Japan would follow general lines of compromise Plan "A", which he understood had been supported by US and majority members CHINCOM. He said however that this was for time being and that because of strong sympathy and support public opinion and influential business circles for UK action and concern over future Japan's China trade in light thereof, it would be difficult to maintain indefinitely. Kishi reiterated, however, that he believed it essential that any action likely to destroy free world solidarity must be avoided.

MacArthur

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179. Letter From the Chairman of the Council on Foreign Economic Policy (Randall) to the Secretary of Commerce (Weeks) [1]

Washington, June 6, 1957.

DEAR SINCLAIR: You are, of course, familiar with the course which the CHINCOM negotiations in Paris took with respect to the China differential in East-West trade.

The full degree of liberalization authorized by action in CFEP and NSC, when offered by our negotiators, proved to be insufficient, and Great Britain announced that, by unilateral policy, she intended to eliminate the differential completely. It now seems clear that her example will be followed by other countries, and that the differential, as a part of multilateral policy, will disappear.

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[1] Source: Commerce Department Files, Office of the Secretary, Council on Foreign Economic Policy. Secret.

As soon as this highly significant change in trade policy on the part of other countries becomes effective, it would seem reasonable to expect that competitive pressures will build up that will be prejudicial to American businessmen, and it seems almost inevitable that in due course the United States will have to take a second look at its unilateral policy.

Yesterday, in his press conference, the President took publicly in forthright fashion the viewpoint which many of us have heard him express privately, namely that he himself favored liberalization of our trade with Communist China, since trade "can be used as a very great instrument of Government policy".[2]

I suggest to you the thought that it might be well for us to reexamine the whole question of United States trade policy toward Communist China before events force us in that direction.

If you approve, I shall be glad to appoint an interagency committee to examine this whole question, to be chaired by someone from Commerce, whom you would nominate.[3]

Sincerely yours,

CBR

Special Assistant to the President

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[2] For text of the President's news conference of June 5, see *Public Papers of the Presidents of the United States: Dwight D. Eisenhower, 1957* (Washington, 1958), pp. 429–445.

[3] In his reply of June 14, Weeks indicated that Commerce had made a recommendation that trade policy be studied and had appointed Marshall Smith as the Commerce representative for the study that Randall proposed. (Department of Commerce Files, Office of the Secretary, Council on Foreign Economic Policy)

180. Memorandum of a Conversation, Department of State, Washington, June 6, 1957 [1]

SUBJECT

China Trade Controls

PARTICIPANTS

Mr. Hervé Alphand, Ambassador of France

Mr. Douglas Dillon, Deputy Under Secretary
Mr. Edwin G. Moline, Office of European Regional Affairs
Mr. Robert B. Wright, Economic Defense Division

Ambassador Alphand referred to the fact that he sent Paris a recommendation in strongest terms that the French Government support the Compromise Plan A in the CHINCOM discussions of China trade controls. He had based his recommendation in large part upon the fact that failure by France to reach a compromise settlement with the United States would have grave repercussions within the United States. He said that contrary to his prediction, the Congressional reaction to the outcome of the CHINCOM negotiations had been mild and the President's comments on the subject were likewise temperate and conciliatory. He said that under these circumstances some question might be raised as to the accuracy of his judgment.

Mr. Dillon said that the President's remarks appeared to reflect his philosophy with respect to trade with the Soviet bloc and were not at variance with comments which he has made publicly on previous occasions. For instance, he has commented previously on the problem posed for Japan by continued restrictions on Japanese trade with Communist China. Mr. Dillon said that apart from the general philosophy of the President's comments, he knew that the President had attached great importance to reaching an agreement if at all possible on a continued differential trade control towards Communist China. Since such an agreement had not been concluded, the President naturally attaches importance to maintaining a united front on the part of the cooperating countries, and presumably made his comments in an effort to minimize any adverse reaction in this country and to emphasize the continued unity on controls towards the Sino-Soviet bloc as a whole.

Ambassador Alphand said that his recommendation had been turned down by the French Government, and that although he was not fully informed on latest developments, he believed that the

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[1] Source: Department of State, Central Files, 493.009/6–657. Confidential. Drafted by Wright.

French would have little choice but to follow the British lead. Mr. Dillon said that of course this was a decision that each government would have to make for itself and that we realized as a practical matter the difficulty which individual governments would face in attempting to deny exports to Communist China which were being permitted by the United Kingdom.

Mr. Dillon referred to a proposal which had been informally advanced by an officer in the French Foreign Office to a member of the United States Embassy in Paris to the effect that the French were considering submitting to COCOM a proposal for (1) annual review of the COCOM list and (2) an agreement that the control system would remain in force only for a year at a time on the understanding that the controls would lapse if unanimity were broken by the decision of a participating country to denounce the agreement. (Embassy Paris Telegram No. 6227 of June 5, 1957 [2]) Mr. Dillon said that there might be no particular problem with the first French proposal but that the second proposal would raise some serious problems. He urged that the French plan to discuss the details bilaterally with us and with other interested governments before putting any such sweeping proposals into the China Committee.

Ambassador Alphand dealt with several other matters not related to China trade controls and reported separately.

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[2] Not printed. (*Ibid.*, 460.509/6–557)

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181. Telegram From the Department of State to the Embassy in France [1]

Washington, June 6, 1957—6:51 p.m.

2395. Excon. China Trade Controls.

Various PCs have expressed wish to know present US position in light UK decision on China trade controls and present status CHINCOM discussions. USDel should use following points as basis for US participation CHINCOM and for bilateral comment to PC dels, and addressee missions may draw on following at their discretion in responding to queries by other governments.

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[1] Source: Department of State, Central Files, 493.009/6–657. Confidential. Drafted and approved by Wright; repeated to Ankara, Athens, Bonn, Brussels, Copenhagen, The Hague, Lisbon, London, Luxembourg, Oslo, Ottawa, Rome, and Tokyo.

A. US considers that in view inability CHINCOM reach agreement on continuation of a differential control towards Communist China each PC must determine for itself in light recent CHINCOM discussions whether or not to continue its differential controls towards Communist China. US plans to maintain its policy total embargo on trade with Communist China. COCOM/CHINCOM sets minimum control levels; each country free adopt for own purposes higher level controls.

B. Since CHINCOM negotiations reflected considered government views which unlikely be significantly altered by further intergovernmental discussion, US not disposed to urge CG meeting for purpose dealing specifically with China trade controls. Recognize however that CG meetings are properly a normal part of CG/COCOM/CHINCOM operation and present juncture might be considered desirable time hold CG. US will follow PC consensus on desirability and timing possible CG.

C. If queried regarding future activities CHINCOM reply might be made that US assumes continued operation for present.

Dulles

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182. Editorial Note

At his news conference of June 11, Secretary Dulles was asked to comment on President Eisenhower's remarks of June 5 on China trade controls. For the text of his response, see Department of State *Bulletin*, July 1, 1957, page 14.

Before the news conference, Dulles discussed the matter in a telephone conversation with Eisenhower:

"The Sec mentioned his press conf and said there is a lot of talk that he and the Pres have split on China trade. The Pres said to say he has expressed doubts we are going to get what we want and mentioned losing our Eastern allies. Point out how complicated it is and he thinks relying on trade too much to hurt China is futile. He did not know it is an executive order prohibiting trade with Red China rather than a law. If it comes up, the Sec can say he was wrong." (Memorandum of telephone conversation; Eisenhower Library, Dulles Paper, White House Telephone Conversations)

183. Memorandum From the Joint Chiefs of Staff to the Secretary of Defense (Wilson)[1]

Washington, June 13, 1957.

SUBJECT

Future Course of Action with Respect to COCOM/CHINCOM (C)

1. The Joint Chiefs of Staff view with grave concern the seeming intention of certain of our Allies to reduce or abolish meaningful controls on trade with the Sino-Soviet Bloc. The recent CHINCOM negotiations, for example, demonstrated clearly a trend on the part of most participating countries to subordinate national and collective security aspects of the trade control question to purely commercial and political considerations. The effect of reduced controls on Communist Chinese military build-up appears to have received no more than passing notice in CHINCOM. In the wake of Western failure to preserve a united front on maintaining the China differential, there are indications that relaxation or elimination of controls on trade with the USSR and her European satellites may be next on the calendar of policy modifications by one or more of our Allies.

2. These developments have led the Joint Chiefs of Staff to analyze the history of COCOM/CHINCOM controls and to relate the results of this analysis to the security of the United States. The more important conclusions stemming from this undertaking may be summarized as follows:

a. *As related to Communist China*:

(1) In terms of political prestige, Communist China will reap substantial benefits from the recent Western division over CHINCOM controls, largely at the expense of the United States.

(2) Although Communist China stands to reap certain gains in terms of expanded Western trade as the result of CHINCOM relaxations, she has been generally engaged in the maximum level of total trade which she could finance with her own resources. This situation could be altered in event the Soviet Union is prepared to underwrite a program of expanded Communist China trade.

(3) For the short range, reduction in controls on trade with Communist China probably will not materially affect the dollar *value* of her trade; it will, however, result in a change in the *pattern*[2] of trade since Communist China will be able to redirect her available credits to the purchase of the now available

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[1] Source: Department of State, S/S–NSC Files: Lot 62 D 1, U.S. Economic Defense Policy. Secret.

[2] Underlined for emphasis [Footnote in the source text. Printed here as italics.]

strategic commodities essential to development of her industrial base and to her military build-up.

(4) As Communist China obtains greater quantities of key strategic commodities plus technical assistance which enable her to increase production of raw materials and other exportable surpluses, she can then market these items to enlarge her overseas credits. This in turn affords her the basic means of expanding further her purchase of strategic commodities as well as her political influence.

(5) While the China differential was not designed to strangle trade with Communist China, it did serve to retard her industrial growth and the ability to translate this growth into military action. Now, however, transportation strains will be eased, prices reduced, excessive middle men and trade representatives eliminated. Flexibility of purchase and rational industrial programming will be facilitated. Stresses and strains within the Bloc will be relieved, thus assisting the extraordinary efforts now being undertaken by the Bloc to reconstitute its unnatural economic structure.

(6) The prospects of increased trade between Japan and Communist China will produce a heightened sensitivity on the part of the former to Communist pressure.

(7) Competition within various Western countries for Communist Chinese trade could result in the granting of favorable long-term loans and credits to the latter country.

b. *As related to the USSR and her European Satellites:*

(1) The "shopping lists" presented by Soviet leaders during their visit to the United Kingdom in the spring of 1956, Khrushchev's recent televised plea for increased trade and business contacts with the West and similar overtures by Bloc leaders and representatives make it clear that the USSR is anxious to obtain selected strategic and technologically advanced commodities from the West. Success in this endeavor reduces the load on her own research, developmental, and industrial establishment and obtains for her those items which she obviously needs to fulfill and/or accelerate her industrial and military programs.

(2) The Soviet Union and, under her tutelage, the remaining Bloc nations employ foreign trade as a cold war weapon. Through it they achieve political and economic penetration of countries in which they wish to promote the aspirations of international Communism. Relaxation of COCOM controls will, therefore, work to the direct benefit of Soviet cold war apparatus.

3. When weighed against the national and collective security interests of the United States, the foregoing conclusions serve to emphasize in strongest terms:

a. The need for preservation of effective controls against Sino/Soviet Bloc trade. In the view of the Joint Chiefs of Staff the minimum acceptable control formula for application to the USSR, the European Satellites and Communist China is found under the

COCOM procedures. Any further erosion of these controls must be viewed from a military point of view as imposing an increasing threat to our national and collective security by virtue of its direct contribution to Bloc military build-up.

b. The urgent requirement for further review by the National Security Council of U.S. economic defense policy to insure that it upholds and promotes fully the requirements of national and collective security. This review should consider:

(1) Possible application of Battle Act, Export Control Act [3] and Trading With the Enemy Act [4] restrictions on trade with certain of our Allies in response to their widened trade with Communist China.

(2) The posture to be adopted by the United States in the face of possible action on the part of our Allies further to weaken the COCOM/CHINCOM controls.

(3) The advisability of introducing the trade control question into the North Atlantic Council to insure that the strategic and security aspects of this vital Western cold war instrument are accorded proper emphasis vis-à-vis economic and commercial considerations. The Joint Chiefs of Staff are strongly of the opinion that this step should be taken, and that the United States should thereafter intensify its role of leadership in defending the controls.

(4) In event of referral of the trade control question to NATO, the procedures to be adopted for coordination with Japan.

(5) The manner and timing of further discussions of U.S. economic defense policy with Congressional leaders.

4. The Joint Chiefs of Staff consider that the required degree of emphasis on review of U.S. economic defense policy can best be achieved by action on your part to request such review by the National Security Council. Accordingly, they recommend this course

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[3] For text of this act, enacted on February 26, 1949, see 63 Stat. 7.

[4] For text of this act, enacted on October 6, 1917, see 40 Stat. 411; it was amended by a Joint Resolution of Congress on May 7, 1940. (54 Stat. 179)

of action as a matter of priority, the review to include those considerations enumerated in the preceding paragraph.[5]

For the Joint Chiefs of Staff:
Arthur Radford[6]
Chairman

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[5] Donald Quarles, Deputy Secretary of Defense, forwarded this memorandum to James Lay on June 19, under cover of a memorandum which reads in part: "I agree with the Joint Chiefs of Staff that such a review is needed, and recommend that it be undertaken as a matter of priority, giving consideration to the factors listed in paragraph 3 b of the JCS memorandum." On June 25, S. Everett Gleason forwarded the JCS memorandum and Quarles' memorandum to the NSC. "The enclosures," he noted, "are being referred to the Council on Foreign Economic Policy, which will undertake to review U.S. economic defense policy and submit recommendations for consideration by the National Security Council." Both Quarles' and Gleason's memoranda were attached to the source text.

[6] Printed from a copy that bears this typed signature.

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184. Editorial Note

On June 19, Japanese Prime Minister Kishi arrived in Washington for a series of talks with United States officials over a 3-day period. In several of these conversations, the subject of China trade controls was discussed, with Kishi reiterating the interest of his government in trading with the People's Republic of China. Documentation on these conversations is scheduled for publication in volume XXIII.

185. Memorandum From the Chairman of the Council on Foreign Economic Policy (Randall) to the Chairman of the Economic Defense Advisory Committee (DeLany)[1]

Washington, June 25, 1957.

SUBJECT

United States Economic Defense Policy

1. The National Security Council has requested the Council on Foreign Economic Policy to review our economic defense policy (NSC 5704/1).

2. A CFEP Committee under the Chairmanship of the Under Secretary of Commerce has been requested to review all aspects of our economic defense policy as it relates to United States unilateral controls on trade with Communist China, including the economic, military, political and psychological questions involved.[2]

3. It is desired that the Economic Defense Advisory Committee review the remaining parts of our economic defense policy and submit recommendations to me with respect thereto by August 15, 1957.

4. In connection with this assignment to EDAC your attention is invited to the enclosed memorandum from the Deputy Secretary of Defense on "Future Course of Action with Respect to COCOM/CHINCOM"[3] and the attached memorandum to the Secretary of Defense from the Joint Chiefs of Staff on the same subject recommending a review of U.S. economic defense policy.[4]

5. In addition to my request to review our economic defense policy as outlined in paragraph 2 above, I would like EDAC to submit specific recommendations to me concerning the questions posed in paragraphs 3B–1, 2, 3 and 4 of the attached memorandum from the Joint Chiefs of Staff.

Clarence B. Randall
Special Assistant to the President

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[1] Source: Department of State, Economic Defense Files: Lot 64 D 234, Policy Review Papers—NSC 5704/1. Secret.

[2] In a memorandum to the CFEP, dated June 20, Randall stated that in view of the decision by the United Kingdom and other CHINCOM countries to relax their controls over trade with Communist China, all aspects of U.S. policy on trade with China should be reexamined. Accordingly, he proposed appointing a CFEP committee chaired by Under Secretary of Commerce Walter Williams and including representatives of the Departments of State, the Treasury, Agriculture, Defense, and the International Cooperation Administration.

[3] See footnote 5, Document 183.

[4] Document 183.

186. Memorandum From the Under Secretary of Commerce (Williams) to the Chairman of the Council on Foreign Economic Policy (Randall)[1]

Washington, August 13, 1957.

SUBJECT

Report of CFEP Committee to Study All Aspects of Policy on United States Trade with Communist China[2]

In accordance with the assignment set out in your memorandum of June 20, 1957 to the Council on Foreign Economic Policy[3] and as further defined in paragraph 2 of your memorandum of June 25, 1957 to Admiral DeLany,[4] the CFEP Committee to Study All Aspects of Policy on United States Trade with Communist China submits the following report.

A. Recommendations:

1. That there be no change in existing U.S. policy of complete embargo on trade with Communist China. For purposes of this recommendation the committee has included in "Trade", all export, import and financial transactions between nationals, as defined by the respective regulations of the U.S. Government Departments and Agencies exercising control over such transactions, of the U.S. and Communist China. Accordingly, the Committee recommends that the existing paragraph 8 (This is Paragraph 7 in Tab A which results from EDAC combining Paragraphs 4 and 5 of NSC 5704/1) of NSC 5704/1 which reads,

"So long as it is considered to be in the U.S. interest, there should continue to be applied against Communist China more severe controls than are applied against the remainder of the Soviet Bloc.

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[1] Source: Department of State, Economic Defense Files: Lot 61 D 282A, U.S. Economic Defense Policy, CFEP 557. Secret. This report was forwarded to the CFEP on August 14, under cover of a memorandum by Paul Cullen, as Tab B to CFEP 557/1. An 8-page proposed paper, entitled "Statement of U.S. Economic Defense Policy," which contained the combined recommendations of the Williams Committee and the EDAC, was attached as Tab A. Also enclosed were Tab C, a memorandum from DeLany to Randall, dated August 7, which explained the general recommendations of the EDAC, and Tab D, another memorandum from DeLany to Randall, dated August 9, which contained the EDAC's specific answers to the questions raised by the JCS in their memorandum of June 13. CFEP 557/1 was discussed at the CFEP meeting of August 20; see *infra.*

[2] Communist China as used throughout this paper includes North Korea. [Footnote in the source text.]

[3] See footnote 2, *supra.*

[4] *Supra.*

At such time as it is judged to be in the U.S. interest to do so, the controls toward Communist China should be revised,"

be retained.

2. That as a "Course of Action" to implement the above statement of policy, existing paragraphs 20 and 22 of NSC 5704/1 be combined to read,

"Maintain the current level of U.S. unilateral export, import and financial controls applied against Communist China and take all appropriate action effectively to enforce these controls toward Communist China and to prevent their frustration."

Note: The Committee desires to point out that in making the recommendations set forth in A, 1 and 2 above it has confined itself to only the U.S. unilateral aspects of paragraphs 8,[5] 20 and 22 of NSC 5704/1. The Committee presumes that EDAC will make recommendations with respect to the multilateral aspects of those paragraphs.

B. Conclusions:

The Committee examined the problem taking into account the economic/industrial, political (domestic and foreign), military and psychological factors involved. From an overall standpoint the Committee concluded:

There would be no significant advantage economic or otherwise to the United States in relaxing its total embargo policy. While the abolition of the China differential by our principal allies has made the United States embargo less effective than previously, that embargo still has some retarding effect on the Communist Chinese military/industrial build-up. Furthermore, the Committee is convinced that relaxation of the U.S. embargo would have far reaching political and psychological repercussions, which would seriously undermine our position in the Far East. The Committee has, accordingly, reached the conclusion that the only wise course is to retain our present controls. Additionally, the Committee concluded with respect to each of the factors as follows:

1. General

(a) Communist China is still an aggressor nation by United Nations resolution and is still in military occupation of North Korea.

(b) The conflict with Communist China has not been terminated. The fighting has been halted by a cease-fire agreement but the Communist Chinese have persistently refused political settlement except on terms which would stigmatize the United Nations as the aggressors in Korea.

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[5] This is Paragraph 7 in Tab A. [Footnote in the source text.]

(c) Communist China has shown its absolute contempt of world condemnation by its flagrant violation of the Korean and Viet Nam Armistice provisions, its refusal to renounce the use of force in the Formosan area, its continued imprisonment of illegally detained American citizens, and its continuing and expanding program of infiltration and subversion of Free Asian countries.

2. Economic/Industrial

(a) Relaxation of trade controls to the COCOM level would not lead to development of large scale trade between the United States and Communist China. Exports would probably range between 40 million and 75 million dollars annually while imports into the United States from Communist China would probably be somewhat higher but not substantially so. It was recognized that mainland China under favorable political conditions, might well represent an important potential market for U.S. products and that protracted U.S. unilateral abstinence from that market might create serious barriers to future development of that potential.

(b) From the overall economic standpoint there would be on a short term basis, only limited effect on the Communist Chinese economy, either from maintenance of complete embargo on trade or relaxation to the current multilateral level. However, from the industrial standpoint the maintenance of the U.S. total embargo is effective in retarding Communist Chinese industrial growth to the extent it denies them foreign exchange, limits their sources for goods in short supply and denies them items in which the U.S. has a total monopoly of production, production know-how or technology. With respect to the last named category, U.S. controls are effective only in so far as they are administered in a way to prevent frustration by other countries to which such commodities, production know-how and technology are permitted to go. The Committee recognized that the effectiveness of the U.S. total embargo controls on trade had been diminished by the recent abolition of the China differential controls but considered an economic defense advantage still accruing from their continuation.

3. Military

(a) Relaxation of U.S. unilateral controls to the current multilateral level would have little effect on the immediate military capabilities of Communist China, because armaments and most military equipment still would be embargoed.

(b) Relaxation of U.S. unilateral controls would contribute to Communist China's war potential to the extent these controls deny them foreign exchange, limit their sources for goods in short supply and deny them items in which the U.S. has a total monopoly of production, production know-how or technology.

(c) That regardless of 3 (a) and (b) above, relaxation of U.S. unilateral controls would constitute an important advantage to the Communist Chinese military machine and a great disadvantage to the U.S. military program in the area because of psychological and political effects discussed below.

4. Political and Psychological

(a) Relaxation of U.S. unilateral controls without adequate and publicly known quid pro quo would increase the power, prestige and influence of Communist China within the area.

(b) Communist China would be encouraged to continue its present policies of infiltration, subversion and military threats with a greater degree of assurance of non-U.S. intervention than presently exists.

(c) Relaxation of U.S. unilateral controls would seriously damage the power, prestige and influence of the U.S. in the entire Far East area.

(d) Relaxation of U.S. unilateral controls would damage the military and political cooperation of many Free Asian countries with the U.S. thereby imposing an important additional burden to provide adequate military defense of the area which is a pillar of total U.S. policy toward Communist China.

(e) Relaxation of U.S. unilateral controls would create an impression that the United States was preparing to make still further concessions to Communist China and consequently there would be a strong tendency in East Asia to move away from reliance on the U.S. and in the direction of neutralism or accommodation with Communist China.

(f) That Overseas Chinese in Southeast Asia would be inclined to regard the Government of the Republic of China as a lost cause and there would be a sharp swing toward cooperation with Peiping.

(g) That while there has been some indication of change in attitude toward trade in non-strategic goods with Communist China on the part of a few individuals and public figures in the United States these indications appear to be far short of a trend and are likely to be the result of incomplete understanding of the overall problem or Communist inspired.

187. Minutes of the 62d Meeting of the Council on Foreign Economic Policy, Executive Office Building, Washington, August 20, 1957 [1]

PRESENT

Clarence B. Randall, Special Assistant to the President—Chairman
Thorsten V. Kalijarvi, Assistant Secretary of State
W. Randolph Burgess, Under Secretary of the Treasury
Walter Williams, Under Secretary of Commerce
True D. Morse, Under Secretary of Agriculture
John Irwin, Deputy Assistant Secretary (ISA), Department of Defense
Fred G. Aandahl, Assistant Secretary of the Interior
Percival Brundage, Director, Bureau of the Budget
W. S. DeLany, Chairman, Economic Defense Advisory Committee
Robert Amory, Jr., Deputy Director (Intelligence), Central Intelligence Agency
Frederick Winant, Special Assistant, Office of Defense Mobilization
Joseph S. Davis, Member, Council of Economic Advisers
James S. Lay, Jr., Executive Secretary, National Security Council
Paul H. Cullen, Secretary, Council on Foreign Economic Policy, and their assistants

I. The Council approved the minutes of August 1, 1957.

II. CFEP 557—U.S. Economic Defense Policy.

1. The Council on Foreign Economic Policy considered the recommendations of the Williams Committee and the Economic Defense Advisory Committee for a revised United States economic defense policy in the light of the outcome of the recent CHINCOM negotiations. The Williams Committee recommendations concerned U.S. unilateral trade policy toward Communist China, and EDAC's recommendations covered the remainder of the economic defense policy. These recommendations were distributed to the Council on August 14 as CFEP 557/1.

2. The basis for CFEP action in this matter was a National Security Council memorandum to the CFEP, dated June 25, 1957, requesting it to review our economic defense policy (NSC 5704/1) and to submit recommendations for answers to certain questions concerning the implementation of this policy, posed by the Joint Chiefs of Staff. [2]

3. The Council concluded that our present economic defense policy should be continued except for that portion of the policy which provided for a multilateral differential on trade with China. In

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[1] Source: Department of State, Economic Defense Files: Lot 64 D 234, Policy Review Papers—NSC 5704/1. Secret.

[2] Not printed. (*Ibid.*, S/S–NSC Files: Lot 62 D 1, U.S. Economic Defense Policy)

place of this the Council recommended that, when it was clearly feasible and desirable from a foreign economic policy standpoint, approaches be made to individual free world countries on a bilateral basis to encourage them to maintain unilateral controls toward Communist China at a more restrictive level than the multilateral controls. The U.S. economic defense policy, which was unanimously adopted by the CFEP for consideration by the NSC, is attached hereto.[3]

4. The CFEP also recommended the following answers to the questions posed by the Joint Chiefs of Staff:

Joint Chiefs of Staff Question No. 1

> "Possible application of Battle Act, Export Control Act and Trading With the Enemy Act restrictions on trade with certain of our Allies in response to their widened trade with Communist China."

Recommendation

These acts should not be applied against our Allies in retaliation for their elimination of the special China trade controls. The proposed redraft of economic defense policy (attached hereto) takes into consideration appropriate application of the cited legislation for antifrustration purposes. EDAC, with respect to multilateral controls, and ACEP, with respect to U.S. unilateral export controls, provide the appropriate means for interagency consideration of proposals on such matters.

Joint Chiefs of Staff Question No. 2

> "The posture to be adopted by the United States in the face of possible action on the part of our Allies further to weaken the COCOM/CHINCOM controls."

Recommendation

The proposed redraft of foreign economic defense policy (attached hereto) and the planned work program under that policy are designed to produce the best possible action on the part of the United States to achieve the needed international security controls.

Joint Chiefs of Staff Question No. 3

> "The advisability of introducing the trade control question into the North Atlantic Council to insure that the strategic and security aspects of this vital Western cold war instrument are accorded proper emphasis vis-à-vis economic and commercial considerations. The Joint Chiefs of Staff are strongly of the opinion that this step should be taken, and that the United

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[3] Not printed.

States should thereafter intensify its role of leadership in defending the controls."

Recommendation

1. That the U.S. draw the international security trade control (Consultative Group (CG)) structure to the attention of the North Atlantic Council (NAC) and ask that in its reporting activities, NAC bear in mind the possible pertinence of trade control matters to subjects treated in its reports, and that the whole or parts of any reports which deal with such matters be made available to the CG for guidance unless specifically objected to by NAC.

2. That NAC not be asked to make any special review of the trade control question at this time.

Joint Chiefs of Staff Question No. 4

> "In event of referral of the trade control question to NATO, the procedures to be adopted for coordination with Japan."

Recommendation

The procedures involved in the action proposed immediately above would provide appropriate coordination with Japan because Japan would participate as an equal partner in any CG deliberation on the use of NAC guidance.

Joint Chiefs of Staff Question No. 5

> "The manner and timing of further discussions of U.S. economic defense policy with Congressional leaders."

Recommendation

The manner and timing of further discussions of U.S. economic defense policy with Congressional leaders cannot be determined at this time and should be left to the discretion of the Secretary of State after consultations with the heads of appropriate interested agencies.[4]

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[4] On August 21, Randall transmitted to Cutler the proposed paper on economic defense policy and the paper containing recommendations for answers to the questions posed by the JCS. He explained that both these papers had been approved by the CFEP at its meeting of August 20. "The only substantive policy change recommended in the economic defense policy," his memorandum reads in part, "would recognize the elimination of a multilateral differential on trade with Communist China and substitute a policy calling for approaches to individual Free World countries on a bilateral basis to encourage them to maintain unilateral trade controls on trade with Communist China at a more restrictive level than controls which are agreed to on a multilateral basis." (Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5704 Series)

On August 23, the statement of economic defense policy was circulated to the NSC as NSC 5704/2; the recommended answers to the questions posed by the JCS constituted Annex A. (*Ibid.*)

188. Memorandum of Discussion at the 336th Meeting of the National Security Council, Washington, September 12, 1957[1]

[Here follows a paragraph listing the participants at the meeting.]

1. *U.S. Economic Defense Policy* (NSC 5704/1; NSC Action No. 1677;[2] Memos for NSC from Executive Secretary, same subject, dated April 11[3] and September 6, 1957;[4] Memo for NSC from Acting Executive Secretary, same subject, dated June 25, 1957; NSC 5704/2)

Mr. Cutler introduced the subject, and called on Mr. Randall to brief the National Security Council on the contents of the reference report on the subject (NSC 5704/2).

Mr. Randall expressed the opinion that the Council would find the report a rather conventional one—business as usual. After describing the process by which the revised policy had been formulated, Mr. Randall went on to point out that the only real change from the previous policy on this subject (NSC 5704/1) consisted of a recognition of the fact that multilateral controls on trade with Communist China had disappeared. Accordingly, the new policy suggests that in place of the vanished CHINCOM policy, the United States should engage in bilateral negotiations with other countries in order to try to maintain something of a differential on Free World trade with Communist China as opposed to such trade with the European Soviet bloc. Mr. Randall believed that the fruits of such bilateral negotiations were largely a pious hope. As for unilateral U.S. controls on trade, etc., with Communist China, the policy directs that we continue our complete embargo on trade with Communist China.

With respect to the questions asked by the Joint Chiefs of Staff, as set forth in Annex A to NSC 5704/2, the document includes one new sentence. No sanctions are to be applied by the United States against our allies for what they have done in the past with regard to eliminating special Chinese trade controls. This does not necessarily preclude the possible application of sanctions for future actions by our allies.

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on September 13.

[2] See footnote 7, Document 146.

[3] See footnote 2, Document 154.

[4] This memorandum enclosed the views of the Joint Chiefs of Staff on NSC 5704/2. The Joint Chiefs, in a memorandum of August 30 to Secretary of Defense Wilson, recommended the Department of Defense's concurrence in the adoption of NSC 5704/2. (Department of State, S/S–NSC Files; Lot 63 D 351, NSC 5704 Series)

Mr. Randall then stated that NSC 5704/2 clearly represented the consensus of the members of the Council on Foreign Economic Policy. As a "good chairman" of the CFEP, Mr. Randall stated that he went along with the consensus of the group. Nevertheless, he stressed his personal feeling that the continued maintenance of U.S. unilateral controls on U.S. trade with Communist China made very little sense. In the first place, this practice was unfair to U.S. businessmen, who were thus penalized in their competition with foreign businessmen. Beyond this, the continuation of U.S. unilateral controls had the effect of giving Russia a gift by throwing so much of future trade with Communist China into the hands of the Soviet bloc. Mr. Randall also stated his belief that questions of trade were readily separable from such political questions as the recognition of Communist China by the United States or the admission of Communist China to the United Nations.

Mr. Cutler then called on Secretary Dulles for his views. Secretary Dulles stated that all he had to say was this: Many of our relationships with the Soviet-Chinese Communist bloc countries have had to take into account not only the direct U.S. relationship with the bloc, but also the impact of what the United States does vis-à-vis the Communist powers on what might be called our weaker brethren. It is proving a very difficult political task to prevent Communist penetration of some of our allies in the Far East, such as Burma, Thailand, Vietnam, etc., etc. If the world consisted just of the United States and the USSR, and the United States alone had to deal with the USSR, Secretary Dulles said he would find himself in agreement with Mr. Randall's personal views as just expressed. This, however, was, of course, not the case. After all, the Chinese Communists have consistently violated all decent standards of civilized intercourse. This fact doesn't hurt us, but it may hurt other friendly nations. We want very much to maintain a non-Communist area between us and Communist China, just as we have succeeded in maintaining such an area in the West between us and the USSR itself. We are holding on to this non-Communist area in Asia only with great difficulty, and that area consists of rather small fragments—Japan, Formosa, the Philippines, Southeast Asia, etc., etc. Thus the area constituted an insular position. Nevertheless, it would be a great disaster if these nations were to be taken over by the Communist Chinese and if, thus, the whole Western Pacific area were to fall into the hands of the Communists. It is such considerations as these which, said Secretary Dulles, made him doubtful of the wisdom of cutting down on our unilateral controls on U.S. trade with Communist China.

Mr. Cutler then asked for an expression of opinion from the Acting Secretary of Commerce. Secretary Williams pointed out that the mere fact that the Council had just heard these two statements of Mr. Randall and Secretary Dulles on the problem of trade with Communist China, indicated how difficult it had been to find the solution to the problem set forth in NSC 5704/2. There were obviously strong arguments on both sides, but Secretary Williams thought, in a word, that the unanimous finding of the Council on Foreign Economic Policy indicated that we were living in a rapidly-changing world. It might well prove true that we will eventually be obliged to change our own policy of a complete embargo on trade with Communist China; but as of now it was the studied opinion of the CFEP that we should continue our existing system of strict unilateral controls. The economic advantages of such a course of action had not been a very difficult matter because our trade with Communist China would not be likely to be very great even if the controls were removed. Similarly, there had been no great argument about the matter from the military point of view. The two fields which had been most decisive in inducing the CFEP to recommend continuation of the U.S. unilateral controls had been the political and the psychological. Although all factors had been weighed in the CFEP's deliberations, these last two were the determining factors.

Asked for his views by Mr. Cutler, Secretary Wilson replied that he would say that his personal views on this matter were closer to Mr. Randall's than Mr. Randall thought. However, the military people in the Department of Defense were still so acutely conscious of the Korean war and of the bitter hostility of the Chinese Communists, that they said, in effect, that we don't want to trade with the dirty s.o.b.'s, nor do we want the Free World nations to trade with them either. Secretary Wilson added that he himself was rather worried lest it should prove that the United States is paying in part for goods shipped to Communist China by our allies. But likewise, said Secretary Wilson, he was conscious of the fact that some of these allied nations are almost obliged to trade with mainland Asia—Japan, for instance. Undoubtedly, as Mr. Randall had said, trade properly handled does contribute to world peace. The Russians were, after all, the main devils, and by our present trade policies we are forcing Communist China to continue to depend on the Soviet Union. Secretary Wilson doubted the wisdom of such a policy.

Mr. Cutler asked General Lemnitzer, who was acting for the Chairman of the Joint Chiefs of Staff, if the Joint Chiefs of Staff were satisfied with the answers to their questions. General Lemnitzer explained that the reason why the Joint Chiefs had originally submitted these questions was their anxiety over the erosion of our security position. However, they realized the cogency of other considerations and, accordingly, had concurred in NSC 5704/2.

When called on by Mr. Cutler, Mr. Hollister said he wished to support strongly the views just expressed by the Secretary of State, whose opinions did not always receive the understanding that they deserved to have. If the United States weakened in its support of Nationalist China against Communist China, lesser powers were sure to give way rapidly.

The Vice President expressed the opinion that the discussion of NSC 5704/2 led to one clear conclusion—namely, that the matter of trade with Communist China was primarily a political problem rather than an economic problem. He believed that we had no alternative but to accept the position of the Secretary of State, for the reason that the United States has to consider not only what it would do if it were acting alone, but also the effect of our action on other powers. So at this time, at least, it seemed to the Vice President that the policy set forth in NSC 5704/2 was the most reasonable policy we could envisage.

The National Security Council: [5]

a. Noted and discussed the report on the subject contained in NSC 5704/2, prepared by the Council on Foreign Economic Policy; in the light of the views of the Joint Chiefs of Staff, transmitted by the reference memorandum of September 6, 1957.

b. Adopted the statement of policy in NSC 5704/2.

Note: The statement of policy in NSC 5704/2, as adopted, subsequently approved by the President and circulated as NSC 5704/3 for implementation by all appropriate Executive departments and agencies of the U.S. Government and referred to the Secretaries of State and Commerce for coordination through existing interdepartmental mechanisms; with a first progress report to be submitted to the National Security Council, through the Council on Foreign Economic Policy, in three months, and subsequent progress reports to be submitted at least every six months.

[Here follow items 2–8.]

S. Everett Gleason

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[5] Paragraphs a–b that follow constitute NSC Action No. 1780. (*Ibid.*, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1957)

189. National Security Council Paper[1]

NSC 5704/3 *Washington, September 16, 1957.*

STATEMENT OF U.S. ECONOMIC DEFENSE POLICY

General Policy

1. The continued threats[2] to the security of the Free World posed by the Sino-Soviet bloc warrant the application against that bloc of such economic defense measures by the United States and by the Free World as will retard the growth of the war potential of the bloc and reduce its unity. Our attitude and program must be one which will not increase the possibility of war, but rather one which will keep open paths which might lead to a sounder basis for peace. During this period, the courses we take should be based upon the assumption that interference in the trade between the Free World and the Sino-Soviet bloc should take place only where a clear advantage to the Free World would accrue from such interference. They should also be based upon the assumption that the maintenance of personal, cultural, and commercial contacts between the Free World and the European Soviet bloc may have positive advantages during this period of tension and watchfulness.

2. The economic defense program should be framed and administered with full recognition of the fact that the economic defense system of the Free World is part of the larger system of military and political alliances and, like them, depends upon the cooperative efforts of the free nations. The United States should participate in Free-World collective arrangements in the field of trade controls. Accordingly, in determining the economic defense measures which the United States should adopt and those to be urged on other nations, the impact upon the existing system of economic defense as a whole, and upon the Free-World military and political alliances, should be taken into account. Similarly, in multilateral military and political discussions, consideration should be given to the impact of their courses of action upon and support to be derived from the economic defense program. Political conditions generally, and economic conditions in some individual countries, may make substantial intensification of multilateral controls with respect to the Sino-

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[1] Source: Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5704 Series. Secret. Circulated to the NSC on September 16, under cover of a note by James Lay which stated that President Eisenhower had that day approved the paper.

[2] The nature and duration of the threat are described in NSC 5707/8, June 3, 1957, (TS) and JIC 636/4, August 24, 1956 (Secret). [Footnote in the source text.]

Soviet bloc impractical for the foreseeable future, in the absence of a marked worsening of international tensions.

3. The United States should maintain such unilateral controls as will have a significant effect on the growth of the war potential of the Sino-Soviet bloc or will effectively support other U.S. policies or fulfill U.S. legislative requirements.

4. The problems posed for our allies by trade controls should be given appropriate weight in determining the controls which the United States should advocate that the Free World exercise in its economic relations with the Sino-Soviet bloc. Extensions or reductions of the multilateral controls should be proposed or supported, whenever justified by new technology, new intelligence or altered evaluation of the significance of particular imports to the Sino-Soviet bloc.

5. The controls should be so applied as to support U.S. policy with respect to encouraging and assisting bloc satellites to achieve and maintain national self-determination and independence.

6. The United States should avoid, and seek to have other friendly countries avoid, becoming excessively dependent on the Sino-Soviet bloc as a market or as a source of supply.

7. So long as it is considered to be in the U.S. interest, there should continue to be applied against Communist China[3] more severe controls than are applied against the remainder of the Soviet bloc. At such time as it is judged to be in the U.S. interest to do so, the controls toward Communist China should be revised.

8. In recognition of the continuing threat of Communist China to the Free World which may be more fully accepted by some individual countries than by multilateral bodies, the United States should continue, wherever clearly feasible and desirable from a foreign policy standpoint, to encourage individual Free-World countries to maintain unilateral trade controls toward Communist China at a more restrictive level than the multilateral controls.

Courses of Action

9. Seek to maintain a multilateral security trade control structure and control measures developed thereunder, making appropriate and timely adjustments in those measures to reflect changes in the vulnerabilities within the Sino-Soviet bloc as a whole and within its members, or to improve cooperation and increase effectiveness; and continue our efforts for better understanding and support of the multilateral control objectives, criteria and procedures essential to an effective economic defense program.

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[3] Communist China as used throughout this paper includes North Korea. [Footnote in the source text.]

10. Seek to maintain and, as necessary, extend the bilateral arrangements with Free-World countries (non-CG countries) to obtain support for multilaterally agreed controls.

11. Maintain toward the European Soviet bloc U.S. export controls over multilaterally agreed items and over such other materials, equipment, technology and services as can be so unilaterally controlled by the United States as to achieve a worthwhile adverse impact on the war potential of the European Soviet bloc, or can effectively serve other U.S. policy objectives judged by the U.S. control authorities to warrant the use of unilateral controls; and take all appropriate measures as will effectively enforce these controls and prevent their frustration.

12. Approve, as a general rule, for shipment from the United States to the European Soviet bloc, commodities not controlled under paragraph 11 above, and, where appropriate, remove the requirement of specific licenses for such shipments to the entire European Soviet bloc.

13. Make appropriate and timely unilateral adjustments and seek appropriate multilateral adjustment in the scope and severity of controls maintained toward selected European satellites of the USSR, as feasible, to encourage and support progress toward national self-determination and independence.

14. Enhance the utility of evaluated intelligence pertaining to economic defense programs.

15. Seek the adoption of effective measures to enforce the agreed scope and severity of the multilateral controls and increase the scope and effectiveness of multilateral exchanges and cooperation in the enforcement field.

16. Seek a close association with NATO and other security alliances and, where feasible, obtain their consideration and advice on appropriate economic security problems.

17. Seek agreement to utilize the multilateral control structure for studies and exchanges of views regarding all Sino-Soviet trade practices which appear to be inimical to the Free World.

18. Encourage Free-World countries to resist Sino-Soviet economic penetration and to avoid excessive dependence on trade with the Sino-Soviet bloc; foster the development of necessary markets and sources of supply within the Free World.

19. Administer current U.S. programs, such as economic development, military and other governmental procurement, defense support, stockpiling, disposal of surplus goods and properties, and similar activities, in such a way as to take into appropriate account the objectives of the economic defense program.

20. Maintain the current level of U.S. unilateral export, import and financial controls applied against Communist China[4] and take all appropriate actions effectively to enforce these controls toward Communist China and to prevent their frustration.

21. Seek bilaterally to encourage individual Free-World countries, wherever clearly feasible and desirable from a foreign policy standpoint, to maintain unilateral controls toward Communist China at a more restrictive level than the multilateral controls.

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[4] U.S. economic defense policy with respect to North Vietnam is contained in paragraph 71 of NSC 5612/1, which reads as follows:

"71. Apply, as necessary to achieve U.S. objectives, restrictions on U.S. exports and shipping and on foreign assets similar to those already in effect for Communist China and North Korea." [Footnote in the source text.]

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190. Memorandum of a Conversation, Department of State, Washington, October 22, 1957[1]

SUBJECT

Control of Copper Wire to Soviet Bloc

PARTICIPANTS

Foreign Secretary Selwyn Lloyd	The Secretary
Ambassador Caccia	Ambassador Whitney
Lord Hood, Minister Br. Embassy	Deputy Under Secretary Dillon (latter part of discussion)
Mr. Jackling, Coun. Br. Embassy	Asst. Secretary Elbrick
William Morris, First Secretary	Mr. Timmons—RA
Dennis Laskey, Personal Secretary to Foreign Secretary	Mr. Dale—BNA, Mr. Wright—ECD

Foreign Secretary Lloyd opened the discussion by noting that the difficulty with copper wire control was that Rhodesia had to dispose of its copper output. He referred to the U.S. proposal of June 19, 1957 that the U.K. join the U.S. in making a joint proposal in COCOM to restore copper wire to the embargo list for the Soviet bloc.[2] He said he regretted that the U.K. could not agree to take the action requested by the United States. He said that in the view of the British Government, we need at this stage a complete reexamination of what the strategic controls consist of and what our objectives should be in respect thereto. It was the British view that a comprehensive and up-to-date set of principles should be worked out as a basis for examining the need to embargo copper wire as well as other items on the International List.

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[1] Source: Department of State, Central Files, 460.509/10–2257. Confidential. Drafted by Wright. Prime Minister Macmillan, Foreign Secretary Lloyd, and other British officials were in Washington for a series of talks, October 22–25.

[2] Not further identified.

As far as copper wire is concerned, Mr. Lloyd said that he was under continuing pressure from other Ministers to permit the export of wire. The best he could offer under the circumstances was the limitation of copper wire exports during the first six months of 1958 to 30,000 tons which was approximately equivalent to the rate of export during the last twelve-month period. (*Note*: The U.K. exported 51,000 metric tons of copper wire in 1956 and has been exporting during 1957 at the rate of 55,000 to 60,000 tons annually.) He regretted that an accommodation to U.S. views was not possible, but the British position represented a Cabinet decision.

Mr. Lloyd said the United States argument in favor of embargoing copper wire appeared to hold that since the Soviet bloc was short of copper, the Soviets had to make withdrawals from the copper stockpile to meet their essential requirements. The British, Mr. Lloyd said, were prepared to concede that such an estimate may be accurate, but they were not disposed to think that the size of the Soviet stockpile mattered particularly, since a war, if it came, would be over so soon that neither the necessity nor the opportunity to draw on a stockpile would arise. Under these circumstances, he said, the British looked at the copper wire question as a trade matter. From their standpoint, the critical question was one of assisting the Rhodesian economy and to some extent that of the United Kingdom.

Mr. Elbrick recalled that the British and American defense and intelligence experts had met in London in March, 1957 to discuss the Soviet bloc supply situation with respect to copper.[3] Ambassador Caccia said that the need now was rather for a discussion of criteria. He felt the copper wire question was really illustrative of a problem which we had started to look at in the Middle East context—namely, major foreign exchange earning products which certain countries are unable to get rid of, such as cotton, apples, or in the case of Rhodesia, copper.

Mr. Elbrick noted that in the matter of the Soviet copper stockpile, the March consultation between the British and American experts found that the significant point was the Soviet inability to meet its stockpile needs which affected direct military requirements. The Secretary read from the conclusion of the joint US/UK report of March, 1957[4] which stated that there was in 1956 a shortfall of

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[3] Documentation on these talks is in Department of State, Central File 461.419.

[4] Not found in Department of State files.

220,000 tons of copper in the Soviet bloc, consisting of 50,000 tons in the civilian economy, the probable withdrawal of 35,000 tons from the strategic stockpile, and the failure to add 135,000 tons to it. He said that while the situation may have changed from that prevailing when the study was completed six months ago, the facts were sound. The Secretary said the points raised by the U.K. were of a general character—whether it was more important to help their own economy or to keep the copper wire from the Russians.

With respect to stockpiling, the Secretary noted that we are stockpiling on the basis of a five-year war. Mr. Lloyd said it was a question of what kind of war we think will be waged. He said that when he was Minister of Supply, the principle which was applied was not to let the other side get anything which would make their economy very much more efficient. The question now was whether the objective of holding down the Soviet copper stockpile was a sufficient reason to penalize the economy of the United Kingdom and of Rhodesia.

The Secretary inquired how the British would propose to go about a re-study of the strategic concepts of the control system. Mr. Lloyd said the United Kingdom regarded it as a Board of Trade matter. He presumed a working group would be in order, similar to the arrangement in 1954 when the previous review was undertaken with Harold Stassen representing the United States. The Secretary said that the British seemed now to be posing questions which could not very well be handled by an essentially technical group. The proposal which Mr. Lloyd had made was for new criteria. It was not clear how such criteria should be framed. One possible criterion might be to keep from the Soviet bloc advanced types of machinery. With respect to the category of wire, there was the criterion of hindering the Soviet construction of a system of secure land-line communication.

Mr. Lloyd said that someone should identify the nature of the criteria problem and identify the correct objectives for present conditions. The Secretary said that this was not easy to accomplish since the Board of Trade view will probably differ from the U.K. military view, which probably coincides with the military view in Washington.

Mr. Lloyd suggested that the trade control program as presently constituted works at cross purposes with policy on exchanges. He said that the denial of fast merchant ships to the Soviet Union seemed at odds with a policy on other forms of exchange which assumed that the more the Soviets see of us, the more difficulty they will have at home.

The Secretary acknowledged that to some extent we may be working at contradictory purposes. He said it seemed proper for the

Prime Minister to raise this question in his talks. He said he would not wish to make any decision immediately on Mr. Lloyd's proposal without having an opportunity to discuss it with Mr. Dillon. He said he would also like to look into the matter of the existing criteria and the American attitude thereon.

The Secretary reverted to the copper wire question after Mr. Dillon joined the discussion, noting that the copper market is pretty dead now with serious effects upon the Rhodesian economy, and that Mr. Lloyd had asked for a review of the criteria for the strategic lists.

Mr. Dillon said that copper is one of the few major raw materials in which the Soviets are deficient and thus one of the few items whose embargo is likely to have a serious effect on the Soviet war machine. It might, of course, be appropriate to examine the lists again to see whether the items are of the same strategic importance as they were three years ago.

Mr. Lloyd inquired whether a fat or a thin man was more likely to attack one. He said that with respect to cultural contacts, we have come to the conclusion that the more the Russians see of us and the more frequently they leave the Soviet bloc, the better. He said the recent Youth Festival[5] demonstrated that the West was gaining through contacts. A rising standard of living was likely to make people somewhat more fond of eating well and somewhat less belligerent. He felt it was time that we rethink our philosophy of trade controls.

Ambassador Caccia noted that if we retain a tough control system, we will have to decide what to do about problems such as Rhodesia.

The Secretary suggested that if copper wire goes to the bloc, there seems little purpose in keeping other forms of copper on the list. Mr. Dillon endorsed this point, recalling that the bloc has been importing more wire than they are using as wire. He said he could not answer Mr. Lloyd's basic question, since the effect of Mr. Lloyd's proposal would be to reverse our accepted plan of putting a strain on the Soviet economy and would substitute the philosophy that if the Russians become fat and happy, they will become soft. He said that if this theory were accepted, it would affect the entire COCOM list.

The Secretary said that Gromyko had commented last week that this cultural exchange is all right, but what we really need is to get away from all these economic restrictions and embargoes. The Secretary said he had never been clear whether the Soviets object to the restrictions because they really hurt them economically or because they only hurt their national pride.

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[5] The World Youth Festival, sponsored by the Young Communist League, was held in Moscow in August.

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191. Memorandum of a Conversation Between the Economic Minister of the British Embassy (Thorold) and the Under Secretary of State for Economic Affairs (Dillon), Department of State, Washington, October 23, 1957 [1]

SUBJECT

Control of Copper Wire

At a meeting in Mr. Dillon's office, Minister Thorold referred to an earlier conversation between Selwyn Lloyd and the Secretary [2] and handed to Mr. Dillon the attached third-person secret note on the control of copper wire. He stressed the importance to Rhodesia of export outlets for copper.

Mr. Dillon said that the British proposal raises a basic question to which our Government must give careful study. We had, he said, been considering the advisability of a review of the Cocom lists in the light of existing criteria but the British proposal implied a fundamental change in criteria. Whereas strategic controls heretofore have been based on the assumption that the West should cut down USSR availabilities of copper which is used for civilian as well as military purposes, the British proposal is based on the theory that making copper available to the USSR for more consumer goods is in our long-range as well as short-range interest.

[Enclosure] [3]

London, October 12, 1957.

CONTROL OF COPPER WIRE

Her Majesty's Government have given careful thought to the views expressed in the Memorandum of the United States Government of the 20th of June, 1957, on the control of the exports of copper wire to the Soviet bloc.

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[1] Source: Department of State, Central Files, 461.419/10–2357. Secret. Drafted by Woodbury Willoughby of the Office of International Trade.

[2] See *supra*.

[3] Secret.

This matter is of considerable importance to the United Kingdom both for her own economy and because of her Commonwealth interests. In particular, trade in copper is of great importance to the Federation of Rhodesia and Nyasaland, more especially as the market price of raw copper has fallen by more than half in the last eighteen months (from £437 to under £200 per ton) and has for some time stood below the level to which the Rhodesian budget is geared.

It is apparent that, whilst both Governments agree on the importance of maintaining strategic controls for as long as they are shown to be necessary, there is a difference of opinion on the applicability of the criteria by which materials are judged to have sufficient strategic value to justify an embargo on their export to the Sino-Soviet bloc.

In the opinion of Her Majesty's Government, the existing strategic criteria, under which a wide range of goods and materials is subject to embargo, do not accord with the lines of current NATO strategic thinking and planning assumptions. In their view, the time has come for a review of these criteria with the object of modifying them to accord with the requirements of current strategic planning. In the light of the outcome of this review both Governments could determine for which goods and materials an embargo was, in their opinion, now justified. An appropriate recommendation could thereafter be submitted to the Coordinating Committee.

Her Majesty's Government propose, therefore, that discussions should be held by experts of the United States and United Kingdom Governments, to review the current criteria for the maintenance of strategic controls. It would then be possible on the new basis thus provided to prepare new lists of embargoed items for the consideration of the two Governments.

In the meantime, in order to meet as far as they can the interest of the United States in the matter of the control of copper wire exports, Her Majesty's Government have decided that they will restrict their licensing of exports of bare copper wire to the Soviet bloc, in the six months period commencing on the 1st of January, 1958, to a limit of 30,000 tons.

If the United States Government find themselves able to accept the proposal for discussions now put forward, Her Majesty's Government will be glad to consider their suggestions for a suitable time and place.

192. Memorandum of a Conversation Between the Economic Minister of the British Embassy (Thorold) and the Assistant Secretary of State for Economic Affairs (Mann), Department of State, Washington, December 17, 1957 [1]

SUBJECT

Discussion with British of COCOM Criteria

Mr. Thorold called to leave the attached memorandum entitled "Revision of the Strategic Criteria". [2] He said he did not propose to discuss the substance of the memorandum but rather to deal with certain procedural suggestions. He said the British envisaged two stages in the bilateral discussions. The first stage would consist of a discussion of the criteria with a view to reaching agreement on them. After such agreement had been reached, the British assumed that there would be an interval of several weeks during which the two sides would apply the criteria to the lists. At the end of this period, there would be a second stage of bilateral discussion in which agreement would be sought on a specific list proposal which might be presented to the Consultative Group. As noted in the memorandum, the British were thinking in terms of one embargo list to replace the present International Lists I, II and III, and a separate examination of the munitions and atomic energy lists.

With respect to timing, Mr. Thorold suggested that the first stage of discussion on the criteria should be held as soon as the United States had had a chance to study the British proposals. He said that London has suggested that the first stage bilaterals take place here in Washington and the second stage of discussion on the lists in London. He said that the COCOM situation was likely to provide some pressure with respect to the timing problem. He referred to the COCOM discussion scheduled for January 3 on the French proposal for a List I review and said the United Kingdom intended to take the line that in principle the re-examination of the lists was in order, that the individual member countries should draw up proposals, and that the committee should think in terms of scheduling a subsequent discussion at a later stage. He hoped that the United States would take a similar line, and referred to his understanding from Paris that such a position had been suggested by the United States.

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[1] Source: Department of State, Central Files, 460.509/12–1757. Secret. Drafted by Wright.

[2] This memorandum, not printed, proposed that the United States and the United Kingdom undertake a review of the strategic criteria on which the embargo lists were based and recommended new criteria for determining strategic materials.

. . . .

Mr. Mann said he would give Mr. Thorold a response to his two specific questions and would give him further reactions and suggestions on the procedural proposals early next week if possible. He referred to the strong military aspect involved in the sort of discussion which was foreshadowed in the British memorandum. Mr. Thorold said that the British recognized this fact, and themselves proposed to bring over a Defense Ministry official for the Washington discussions on criteria. It was understood that there would be a further discussion between Mr. Mann and Mr. Thorold to confirm procedural and tactical points before entering into substantive discussions on the British memorandum.[3]

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[3] At the Secretary's Staff Meeting, December 18, the subject of trade controls was raised:

"Mr. Mann reported on a significant development in the form of a UK memorandum left with him, suggesting a radical revision in the criteria for trade controls . . . . Discussion turned upon the value of COCOM if there was such a widely differing view as to its operation and the current policy of the US to consult Lists 1 and 2, but not to limit it so severely. Mr. Robertson discussed the difference between CHINCOM and COCOM. Mr. Murphy felt that an attempt should be made, although not relied heavily upon, to have the UK military consult with our military on the requirements, recognizing that the British military would take orders from British civilian departments, notably the Board of Trade. Mr. Mann was not sure whether the development of this matter would be handled in the working group of Macmillan follow-up." (Notes of the Secretary's Staff Meeting; Department of State, Secretary's Staff Meetings: Lot 63 D 75)

193. Memorandum of Conversations, Department of State, Washington, December 30 and 31, 1957[1]

SUBJECT

U.S. Proposal for Consultative Group Meeting

PARTICIPANTS

Signor Giuseppe De Rege, Counselor, Embassy of Italy
Mr. R.G.C. Smith, Commercial Minister, Embassy of Canada
Mr. Josef Reufels, Economic Secretary, German Embassy
Mr. Pierre Landy, Counselor, Embassy of the French Republic
Mr. Haishiro Ogawa, Counselor, Embassy of Japan
Mr. Takeshi Kanematsu, First Secretary, Embassy of Japan

The above-named officers of the Embassies of France, Canada, Germany, Italy and Japan at Washington called separately on Mr. Armstrong at his request, and were informed that the United States Government believes that a Consultative Group meeting should be held sometime in February to undertake a general reexamination of the entire multilateral security trade control program. Mr. Armstrong said that this proposal was consistent with the French initiative in suggesting an early list review in COCOM, but we believed that a more comprehensive examination of all elements of the control system by the Consultative Group would more nearly respond to the needs of the situation.

Details of United States proposals would be communicated to the participating countries sufficiently in advance of the meeting to allow careful study and preparation of views. The question of transmitting these detailed proposals, whether bilaterally, or multilaterally in COCOM or by some other means, has not yet been decided.

The foreign diplomats all welcomed the proposal for a Consultative Group meeting. Several of the officers inquired whether the United States intends to propose the abolition of List II, to which Mr. Armstrong replied that the annual review of List II quotas has been an element of discord, and we might have some ideas to propose on this subject. The Canadian officer inquired whether the United States intends to take any specific action with respect to China during the meeting, to which Mr. Armstrong replied negatively, although pointing out that any vulnerability of the bloc arising out of purely Chinese circumstances should be exploited. The Italian officer commented, noting that his remark should not be given official standing, that he had the impression that his Government believed that the COCOM participating countries should be cautious in proceeding to any major revision of the International Lists.

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[1] Source: Department of State, Central Files, 460.509/12–3157. Confidential. Drafted by D. Henderson of OR.

The Japanese officers asked several pointed questions with respect to timing, relating these questions to the attitudes of other countries, as for example, France. They also asked about the level of the U.S. representation, and inquired about U.S. expectations as to the degree of technical support required for our delegation, indicating that they rather anticipated protracted negotiations at some stage of the talks.

The Japanese officers then developed a line of questioning relating to the possibility of expanded U.S.-Russian trade. It finally appeared that this reflected a Japanese Foreign Office instruction which quoted a "Paris Journal" article signed by Jacqueline Gunkovaty. The item, as reported by the Japanese officers, stated that Russian Ambassador Zarubin had gained the impression during the course of conversations with Ambassador W.S.B. Lacy that the United States was actively interested in increasing trade with Russia. Zarubin had therefore recommended that his successor be a trade specialist. Mr. Armstrong commented that this was an interesting bit of press speculation.

The next question was whether or not U.S.–U.K. consultations were underway on this subject, to which Mr. Armstrong replied that all COCOM participating countries, including the United Kingdom, were being informed of our proposals at the same time.[2]

[Attachment]

Washington, December 30, 1957.

AIDE-MÉMOIRE[3]

The Embassy of   is informed that the Government of the United States has recently been reviewing the multilateral trade control program in the light of current developments in the international scene. This review suggests the desirability of a general reexamination of the international controls for the purpose of making them as effective as possible. For its part, the United States will shortly be prepared to outline to other governments proposals which will deal comprehensively with all elements of the control system. Illustratively, the United States is considering possible clarification of criteria, a re-examination of the International Lists including consideration of the reduction or elimination of quantitative controls, and a revision of certain of the control procedures to simplify their application.

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[2] Representatives of the Embassies of Norway, Portugal, Greece, Turkey, Belgium, the Netherlands, and Denmark were also presented with the U.S. aide-mémoire on December 30 and 31. A memorandum of those conversations, drafted by Wright, is *ibid.*

[3] A copy of this aide-mémoire was transmitted to the Embassies in each of the Participating Countries in circular telegram 568, December 30. (*Ibid.*, 460.509/12–3057)

The United States has noted that other participating governments have also expressed the view that a re-examination of the controls would be timely. The French Delegate has proposed that on January 3, 1958 COCOM set a date for beginning a revision of the embargo list. Since it is considered that such a review should not be approached on a partial basis in COCOM without consideration of other aspects of the multilateral controls, the United States will propose that the Consultative Group undertake a comprehensive review of the controls along the lines indicated above. The United States considers that such a meeting might be scheduled in February 1958. This Government's proposals will be communicated in detail to the participating governments sufficiently in advance of a Consultative Group meeting to permit their examination prior to multilateral discussion. It is hoped that other participating governments will support the United States suggestion for a full review of the multilateral controls in the Consultative Group and will concur with the proposed timing of a meeting of this Group.

United States Policy Regarding the Stockpiling of Strategic Resources and Commodity Agreements[1]

194. Minutes of a Cabinet Meeting, White House, Washington, January 21, 1955, 10:10 a.m.–12:10 p.m.[2]

[Here follows a list of participants. The President presided at the meeting.]

Energy Resources Report (CP–19)[3]—Dr. Flemming noted the work of the task force and then stressed the need for keeping this paper confidential until decisions were reached on what publicity would be given to it.

Dr. Flemming read in full Recommendations 1 and 2 on regulation of natural gas. In discussion, the President singled out the phrase that the Administration would recommend that Congress should enact legislation. Mr. Flemming believed the Executive Branch should take a positive position on any bills taken up by Congress even though not introduced by the Administration. The Attorney General believed the Administration should limit itself to commenting on bills on which it is called to testify. In subsequent discussion, it was made clear that the Administration would not itself recommend legislation but would stand prepared to testify on legislation which may be introduced by the opposition. Under Sec. Anderson suggested substitute language for Recommendation 1 a, which had the effect of deleting the Administration commitment and substituting a general policy statement on which legislative initiative could be taken by anyone so desiring. The Vice President took note of pressures on the Texas Senators particularly for such legislation and suggested that the Administration should leave the initiative to Sen. Lyndon Johnson.

The President believed that any public statement should stress the need for continued exploration in the long-range interest of the consumer, otherwise supplies may run short and the price be increased far beyond the modest cost of continuing exploration. Mrs. Hobby believed an entire preface should be prepared for the purpose of establishing consumer interest as the purpose of these policies.

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[1] For previous documentation on this subject, see *Foreign Relations*, 1952–1954, vol. I, Part 2, pp. 817 ff.

[2] Source: Eisenhower Library, Cabinet Secretariat Records. Confidential. Prepared by Minnich.

[3] *Infra.*

Amb. Lodge asked whether these policies would relieve from regulation by either Federal or state government any activity presently regulated. Dr. Flemming indicated that there would be such an activity, which was now being regulated by virtue of the Supreme Court decision on the Phillips case. The Attorney General pointed out that it would be subject to state regulation if the states desire to do so. Mr. Brownlee noted that most State Power Authorities would be unhappy with this policy since they would believe it did not effectively control the price of gas to consumers in their states.

Sec. Mitchell noted that Paragraph 1a, (2), was not entirely consistent with current plans for a wartime emergency. Sec. Humphrey suggested that the final clause ("because Federal jurisdiction, etc.") should be knocked out. It was so agreed.

Recommendation 3 was accepted without comment.

In regard to Recommendation 4 on oil imports, Under Sec. Hoover emphasized the desirability of voluntary controls as the best means of accomplishing the State Department's very difficult problems involving friendly countries; the Attorney General cautioned, in the interests of the anti-trust laws, that any discussions by Government officials with officials of private oil companies must be limited to merely pointing out the consequences of failure to limit imports voluntarily; Sec. Humphrey forecast that voluntary action would eventually be ineffective because of increasingly bad situations in domestic energy industries, but he agreed that the recommendation here was the best now available; Sec. Wilson cautioned against any rapid changes toward over-reliance on foreign oil, though he did believe it might be better to slow down on the use of our own exhaustible oil resources. The President believed the policy to be the best "middle of the road" solution. Mrs. Hobby wished to soften the language committing the President to propose appropriate action, and to substitute the word "review". Messrs. Humphrey and Flemming and the President believed a mere promise of review would be inadequate to the present situation. Sec. Wilson suggested a revision to state that the President will propose appropriate action, deleting the final clause. Mr. Flemming agreed.

Sec. Weeks took great exception to the inclusion of residual oil in this recommendation. He believed inclusion constituted a limitation upon the ability of private concerns to improve their efficiency by converting from one form of fuel to another. He believed some alternative program should be found for helping the coal industry.

The President believed he did not have sufficient information on which to base rejection of the Committee recommendation, whereupon Sec. Weeks stated his acceptance of the recommendation now, so long as the subject is open to periodic review.

Mr. Flemming again cautioned on the need for avoiding any public indication of this policy until the Department of State had ample opportunity to effect necessary discussions with foreign countries.

Recommendations 5 through 8 were accepted without discussion.

On Recommendation 9, Sec. Weeks noted the relationship to the work of the Transport Policy Committee and asked that this section be held in abeyance until his Committee completed its work. He did not foresee any conflict. Mr. Flemming agreed to work out with him the appropriate handling of this particular point.

Secretaries Weeks and Wilson opposed Recommendation 12, j, on the grounds that it would open the door to innumerable pressures for similar action for any product in a depressed situation, for discrimination favoring one item over another depending on political influence, and other abuses. Sec. Weeks asserted the policy would not increase the quantity of coal used but would increase its cost. The President believed the situation would not differ from similar practices such as tariffs and quotas. Mr. Wilson suggested that there would not be a great increase in the need for coal in any future war. In the ensuing discussion, Mr. Humphrey apparently made the more convincing case for a considerably increased use. Mr. Humphrey also believed this proposal did not involve any new principle of Federal action to protect an industry necessary to mobilization and national security. The President concluded that this policy would of course have to be administered on the basis of good judgment.

In a discussion as to publicity on the paper as a whole (except for the part on natural gas already decided), the President emphasized the need for obtaining the views of people expert in their knowledge of Congressional viewpoint. Gov. Adams spoke on the need for an early public statement. It was agreed that the Committee would therefore take the report back in order to prepare recommendations on publication, to be cleared with Cabinet members and, if possible, submitted to the White House for discussion at the Legislative Leaders Conference next Tuesday. Dr. Flemming announced that the Cabinet Committee would have a 9:00 A.M. meeting on Saturday, January 22nd.

[Here follows discussion of unrelated subjects.]

LAM

195. Report of the Cabinet Committee on Energy Supplies and Resources Policy[1]

Washington, January 27, 1955.

INTRODUCTION

The importance of energy to a strong and growing economy is clear. As conditions of supplies and reserves of coal, oil and natural gas change and as both defense and peacetime requirements come more clearly into focus, the bearing of Government policies upon energy needs re-examination.

What degree and kind of public regulation is appropriate to the present situation and future outlook? What trade policies for energy supplies will most effectively express the overlapping national needs for adequate protectable supplies in case of war and for encouragement of economic growth of this country and friendly countries elsewhere in the world? What steps may be taken to improve the economic position of the coal industry, now seriously depressed, without penalizing competing industries, as a means of enhancing the ability of that industry to contribute to the national defense? More particularly, should specific changes be made in tax, freight rate, research, government purchasing, or other policies in the energy field?

These and other policy questions press for careful review and decision.

On July 30, 1954, the President established a Cabinet Committee on Energy Supplies and Resources Policy. The Director of the Office of Defense Mobilization was designated as Chairman of this Committee and the heads of the following agencies served as members: Departments of State, Treasury, Defense, Justice, the Interior, Commerce and Labor.

The White House directive respecting the Committee's assignment included the following specific statements:

"At the direction of the President the Committee will undertake a study to evaluate all factors pertaining to the continued development of energy supplies and resources fuels in the United States, with the aim of strengthening the national defense, providing orderly industrial growth, and assuring supplies for our expanding national economy and for any future emergency.

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[1] Source: Eisenhower Library, Cabinet Secretariat Records. Confidential. Submitted to the President under cover of a memorandum of January 18 from Flemming, chairman of the Committee. The Committee revised it in light of suggestions made by the Cabinet members at their meeting of January 21; see *supra*. The revised report was submitted to the Cabinet under cover of a memorandum of January 27 by Maxwell M. Rabb, Secretary to the Cabinet. At its meeting on January 28, the Cabinet noted the revised report and returned it for further detailed study and subsequent publication at an appropriate date in the name of the Committee. (Cabinet Record of Action, January 31; *ibid.*, Project Clean Up) The revised report was released to the press on February 26.

"The Committee will review factors affecting the requirements and supplies of the major sources of energy including: coal (anthracite, bituminous and lignite, as well as coke, coal tars, and synthetic liquid fuels); petroleum and natural gas."

The Cabinet Committee has been aided greatly by an able and representative Task Force appointed pursuant to the President's instructions. The Committee's recommendations are set forth below.

RECOMMENDATIONS

1. Natural Gas Regulation

We believe the problem of natural gas regulation should be approached from the viewpoint of assuring adequate supplies and the discovery and development of additional reserves to support such supplies, in the interests of national defense, an expanding domestic economy, and reasonable prices to consumers.

To secure these objectives, it is essential to give due consideration to (1) the operations known as the production of natural gas, (2) the transportation of gas in interstate transmission lines, and (3) the distribution of gas in municipalities. Individual companies may engage in more than one of these activities. Each operation of such companies should be treated by like criteria according to its appropriate industry function.

In the production of natural gas it is important that sound conservation practices be continued. This area of conservation management is under the jurisdiction of State conservation commissions. In the interest of a sound fuels policy and the protection of the national defense and consumer interests, in assuring such a continued exploration for and development of adequate reserves as to provide an adequate supply of natural gas, we believe the Federal Government should not control the production, gathering, processing or sale of natural gas prior to its entry into an interstate transmission line.

The interstate transmission of natural gas by interstate transmission lines, and the subsequent sale of such gas for resale is a public utility function and should be under the regulation of the Federal Power Commission. In considering the certification of new lines and applications for increased rates based on new or re-negotiated purchase contracts, the Commission should consider not only the assurance of supply, but also whether the contract prices of the natural gas which the applicant has contracted to buy are the reasonable market field prices.

The several states or their political sub-divisions should continue to provide the public utility regulation of distributing companies in accordance with usual utility practices.

Thus the complete cycle of natural gas production, transmission and utilization will be appropriately regulated: the production and conservation of natural gas by the State conservation commissions; the interstate transmission of natural gas by the Federal Power Commission; and the distribution by the local public utility commissions.

2. Sales Below Cost by Interstate Pipeline Companies

The basic principle regarding the regulation of natural gas and the use of alternative energy sources should be as far as possible that of free choice by the consumer and free and fair competition among suppliers. This, it is confidently thought, will provide most effectively for the assurance and flexibility of energy supply, both for economic growth and strong security readiness. But sales either for resale or direct consumption below actual cost plus a fair proportion of fixed charges which drive out competing fuels constitute unfair competition and are inimical to a sound fuels economy.

The Committee recommends, therefore, that legislation be proposed that will prohibit sales by interstate pipelines either for resale or for direct consumption, which drive out competing fuels because the charges are below actual cost plus a fair proportion of fixed charges.

3. Eminent Domain for Natural Gas Storage

The power of eminent domain for the acquisition of surface and mineral rights for the development of underground storage reservoirs should be granted subject to appropriate safeguards to protect the public safety, including the mining industry.

4. Crude Oil Imports and Residual Fuel Oil Imports

An expanding domestic oil industry, plus a healthy oil industry in friendly countries which help to supply the United States market, constitute basically important elements in the kind of industrial strength which contributes most to a strong national defense. Other energy industries, especially coal, must also maintain a level of operation which will make possible rapid expansion in output should that become necessary. In this complex picture both domestic production and imports have important parts to play; neither should be sacrificed to the other.

Since World War II importation of crude oil and residual fuel oil into the United States has increased substantially, with the result that today these oils supply a significant part of the U.S. market for fuels.

The Committee believes that if the imports of crude and residual oils should exceed significantly the respective proportions that these imports of oils bore to the production of domestic crude oil in 1954, the domestic fuels situation could be so impaired as to endanger the orderly industrial growth which assures the military and civilian supplies and reserves that are necessary to the national defense.

In view of the foregoing, the Committee concludes that in the interest of national defense imports should be limited. It is highly desirable that this be done by voluntary, individual action of those who are importing or those who become importers of crude or residual oil. The Committee believes that every effort should be made and will be made to avoid the necessity of governmental intervention.

The Committee recommends, however, that if in the future the imports of crude oil and residual fuel oils exceed significantly the respective proportions that such imported oils bore to domestic production of crude oil in 1954, appropriate action should be taken.

The Committee recommends further that the desirable proportionate relationships between imports and domestic production be reviewed from time to time in the light of industrial expansion and changing economic and national defense requirements.

In arriving at these conclusions and recommendations, the Committee has taken into consideration the importance to the economies of friendly countries of their oil exports to the United States as well as the importance to the United States of the accessibility of foreign oil supplies both in peace and war.

5. Petroleum Refining Capacity

The Departments of Defense and the Interior should have studies made by their staffs and expert advisors as to the adequacy of present and prospective refinery capacity, both as to amount and dispersal, as well as other factors, to determine the need for any measures to maintain refinery capacity necessary for defense purposes, particularly the capacity operated by small, independent refineries.

6. Tax Incentives

a. Present tax provisions on coal, oil and gas production have been an important factor in encouraging development of energy sources at a pace about in keeping with demand. Further analysis and study by the appropriate branches of the Government should from time to time be made to review the amount and method of making such allowances to maintain proper relationships with continuing changes in other features of the tax law. Any changes which may be proposed in the future must be analyzed in terms of their probable effect on development of domestic resources needed for economic progress and national defense as well as the fiscal and tax policies of the Government.

b. Retroactive tax legislation and special relief provisions should be avoided.

c. Accelerated amortization should be used only to insure the maintenance of a sound mobilization base for energy supplies.

7. Research and Development Program for Coal

We recognize that coal is a great national asset and endorse a cooperative study to determine what research and development could be undertaken. The coal industry and both Federal and State governments should participate in this study and its cost.

8. Unemployment and Business Distress in the Coal Industry

We recognize that serious unemployment and business distress exist in the coal industry and recommend that the Interdepartmental Committee on the Soft Coal Industry be continued for the purpose of developing for Cabinet consideration specific action programs to alleviate these conditions.

9. Coal Freight Rates

In order to maintain coal's vitality as an instrument of national defense by improving currently its ability to compete with other fuels, the railroads, by voluntary action, and, in the absence thereof, the Interstate Commerce Commission, by compulsory order, should adjust freight rates to the extent necessary to remove the excessive and disproportionate contribution that coal rates are making to meet the cost of other unprofitable services of the railroad industry. Train load rates should be established to reflect the lower costs of such service.

10. Coal Exports

a. The Government should urge foreign governments to reduce discriminatory restrictions against imports of U.S. coal.

b. The Government, when making foreign loans, should use its best efforts to obtain provisions to prevent discrimination against U.S. coal. Discrimination would be judged to exist when U.S. coal imports are disallowed despite its availability at costs no higher than foreign coal.

c. The Government should expedite efforts to establish credits through the Export-Import Bank to foreign banking institutions in countries where there is reasonable prospect of repayment so that American coal exporters can offer more competitive payment terms to foreign customers.

d. Where U.S. coal can be supplied competitively with other available coal, the Government should use its best efforts to enlarge the participation of U.S. coal in the foreign aid program.

e. The Government should compensate for higher shipping costs when incurred as a result of the requirement that 50 percent of all shipments be in United States ships at fair and reasonable United States market rates.

11. Mobilization Requirements for Coke

The Committee believes that present and prospective rates of shutdown and dismantling of slot-type coke ovens will leave inadequate coking capacity to support full mobilization production of steel and other essential war-time industry.

On the basis of national security, coke requirements can only be met if the Office of Defense Mobilization is directed to prepare plans to make the necessary arrangements and tests to expand coke production rapidly in the case of an emergency.

12. Government Fuel Purchasing Policy

In working out a more consistent and equitable coal purchase policy, the following steps should be taken:

a. The Secretary of Labor under the Walsh-Healy Act should pursue his present policy of making determinations of wage standards applicable in the coal producing areas and should establish these standards at the earliest practicable date.

b. The Government agencies shall, to the extent practicable, purchase not less than 75 percent of their estimated annual coal requirements on a contract basis.

c. All Government agencies purchasing coal shall, prior to and after the award of the contract, verify the quality of the coal offered and supplied to the agencies.

d. All Government contracts for the purchase of coal shall contain appropriate escalator clauses which protect the buyer and the seller.

e. In instances where it is not possible for a Government agency to take all the coal for which it has contracted, the deficit shall be apportioned equitably among all participating contract suppliers without penalty to the Government.

f. Coal suppliers shall be required to submit, along with their bids, proof of their ability to produce the requirements at the time the contract is awarded.

g. All coal suppliers to the Government, regardless of size, shall comply with the Federal Coal Mine Safety Act.

h. All transactions with the Government relating to coal purchases and supply shall be public information.

i. The domestic fuel purchasing policies set forth above shall be applied to purchases of coal by companies acting as agents for the Federal government, as well as to purchases made direct by Government agencies.

Prior to the purchase of any fuel by a Federal Government agency having a large annual use of fuel, that agency should request advice from ODM as to how this purchase can contribute to the maintenance of a strong mobilization base within the domestic fuels industry. ODM should be directed by Executive Order to develop a mechanism for accomplishing this objective.

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196. Memorandum From the Assistant Secretary of State for Economic Affairs (Waugh) to the Under Secretary of State (Hoover) [1]

Washington, January 27, 1955.

SUBJECT

Curtailment of Oil Imports

The policy expressed in paragraph 4 in the Cabinet paper, [2] dealing with curtailment of oil imports, raises serious problems under the trade agreements—the GATT and the Venezuelan Trade Agreement. [3] These agreements prohibit the institution or maintenance of quotas or other measures by any participating country which make effective prohibitions or restrictions on imports. Two possible let-outs from this commitment are the "escape" clause and the "security" exception clause in the two agreements. So far as the "escape" clause is concerned, it is not believed—and the sub-Cabinet Committee does not find—that imports are causing or threatening to cause serious injury to domestic producers. So far as the "security" exception is concerned, it would be difficult to make out a convincing case on this basis; in addition, since the "security" exception runs to everything in the trade agreements, our action on this basis under existing circumstances would pave the way for unraveling of all the commitments on the same basis by other countries whenever they felt they had the color of a case, a tendency which so far has not been pronounced.

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[1] Source: Department of State, Central Files, 411.006/1–2755. Official Use Only. Drafted by Metzger and concurred in by Potter and Nichols.

[2] Reference is to the Report, *supra.*

[3] Reference is to the Supplementary Trade Agreement signed at Caracas on August 28, 1952, and entered into force on October 11, 1952. For text, see 3 UST (pt. 3) 4195.

The announcement by the Government of a policy of restriction would undoubtedly be taken by our trading partners to be the institution or maintenance of a restriction in violation of our commitment. We could try to make a public case based on either of the above-mentioned let-outs. Whether we succeeded or not, and it is doubtful that we would, the affected countries would be privileged to withdraw compensatory concessions made to us, or in the case of Venezuela, would have the right to terminate the agreement as well. Under these circumstances, it would be far better, at the time of announcing a policy, to state that appropriate consultations with the affected countries with whom we have trade agreements will be held. These consultations might lead to agreements on our part to compensatory withdrawals of concessions by them. We might be able to avoid, if such an announcement were made in the Committee's recommendations, a disagreeable public exhibition of charges and defense. A sentence at the end of paragraph 4, along the following lines, is therefore recommended:

"The Committee recommends that appropriate consultations be held with affected countries with whom the United States has trade agreements."[4]

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[4] This sentence was not added to the report.

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197. Editorial Note

On February 1, in a conversation in Washington with British officials, Acting Secretary of State Hoover discussed the problem created for the United States by foreign firms contracting for oil sales in this country at prices below current levels. Hoover explained some of the domestic political dimensions of the question of oil imports to C.A.E. Shuckburgh, Assistant Under Secretary of State in the British Foreign Office, and to Sir Robert Scott, Minister in the British Embassy, as follows:

"There has been a continuous fight between domestic producers and importers over a period of at least 25 years, during which time there have been a number of ups and downs. The problems of oil imports flared up again in a serious form in 1954 and domestic producers, joined by coal and labor, are making a determined effort to secure restrictions. The output of the coal industry is depressed from almost 700 million tons production annually shortly after the war to less than 400 million tons. This is a matter of concern from the standpoint of defense. If coal production drops to too low a level mines are lost from premature abandonment, encroachment of water, and other factors and there would need to be a substantial increase in coal production in an emergency. We have been trying to prevent the enactment of tariffs or the imposition of quotas in this situation. It was only as a result of the establishment of the Cabinet Committee on Energy Supplies and Resources Policy that Congressional committees refrained from conducting investigations of the whole problem at the last session of Congress. The Cabinet Committee is going to say that imports should be kept at reasonable levels by voluntary actions by the industry. There are two reasons for the Government not intervening in the situation. One is because of GATT and our trade agreements and the other is the fact that the industry itself does not want any kind of Government regulation." (Memorandum of conversation, February 1; Department of State, Central Files, 811.2553/2–155)

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198. Memorandum From the Assistant Secretary of State for Economic Affairs (Waugh) to the Chairman of the Council on Foreign Economic Policy (Dodge)[1]

Washington, March 16, 1955.

Current shortages in certain basic defense materials, specifically copper, nickel, and aluminum have drawn the attention of the Congress. The Joint Committee on Defense Production held hearings on March 10, at which Dr. Flemming was the principal witness. Other representatives of the Executive branch, including State, Commerce, General Services Administration, Defense, and Interior, participated in the hearings.

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[1] Source: Eisenhower Library, CFEP Records. Confidential. Circulated to the Council under cover of a memorandum of March 17, from Paul H. Cullen, not printed. Discussions about the strategic stockpile had arisen at the CFEP meeting on January 21, when ODM was requested to develop and submit a paper on this subject. After discussions by the CFEP on February 15, March 1, and March 8, the members agreed on March 8 that action on ODM's policy proposals should be predicated on a reconsideration of the fundamental policies related to the objectives, size, and uses of the stockpile program. (CFEP 517; *ibid.*)

Recent export control actions taken by the Administration to relieve domestic shortages have had international repercussions and a number of governments have expressed their concern.

I am enclosing brief statements on the situation in each of the commodities subject to shortages and the principal features developed by the Joint Committee on Defense Production during the hearings.

S.C.W.[2]

[Enclosure]

COPPER

Copper was in easy supply a year ago. Huge unsold stocks, particularly of Chilean origin, overhung the market and there were marked price weaknesses in the commodity markets and curtailment of output throughout the industry. In March 1954, the U.S., at Chile's request, bought 100,000 tons of excess stocks for our stockpile. In the spring and summer demand in the U.S. and Europe improved considerably. Production could not be geared quickly enough to meet the rising demand, and crippling strikes in the U.S. and Chile caused widespread shortages. A strike in Rhodesia, in early 1955, contributed further to the tight situation. Prices on the London Metal Exchange rose from 30 cents per pound in July, 1954, to 45-⅞ cents on February 10, 1955. However, U.S. producers held the line at 30 cents until the end of January, 1955, when the U.S. price was increased to 33 cents. Because of the price differential between the U.S. and Europe, copper that would normally come to the U.S. has been attracted to Europe. Therefore, the shortages in the U.S. are more severe than outside.

In the fourth quarter 1954 the U.S. acted to divert certain tonnages due on stockpile contracts to consumers. The Government also sold copper stocks accumulated under Defense Production Act contracts and from current deliveries under those contracts. The total amount under Government control delivered amounted to over 40,000 tons. At the same time, restrictions were put on the export of copper from the U.S. In the first quarter 1955 and applicable to February and March, export restrictions were drastically tightened to cover all forms of copper and copper scrap except that of foreign origin. Recently further action was taken to release an additional 8,000 tons of DPA copper for March and export controls were further tightened for the second quarter. The restrictions on exports now represent about a 67 percent cut from the rate prevailing in 1954. The severity of this cut has caused hardship in countries normally dependent on the U.S. as a source of supplies.

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[2] Printed from a copy that bears these typed initials.

The Committee took up the movement of copper to the bloc countries as a contributing factor to the general shortage. We explained that this was not a major factor in the total situation and that we were discussing with other countries a tightening of controls with a reasonable prospect of success.

[Enclosure]

ALUMINUM

A severe shortage in aluminum has only recently come to light. This shortage is occasioned by the high rate of industrial activity and somewhat lower than expected rate of Canadian output. The shortage situation is dramatized by the price of aluminum scrap which is currently several cents over the price of virgin ingot.

In general, the Committee seemed to feel that the shortage situation would be temporary. Dr. Flemming explained that any indications that the present levels of demand would be maintained or increased could, however, point to the need for reopening consideration for further expansion in productive capacity. Capacity has already been increased by 100 percent in the last five years.

The aluminum industry has recently recommended the virtual elimination of stockpile deliveries during 1955. During the first quarter ODM deferred delivery of 50,000,000 pounds to later in the year. The industry also recommended an embargo on scrap exports. So far no action has been taken on these requests, although action is pending. Dr. Flemming told the Committee that any deferrals of delivery to the stockpile would be limited to short periods of, say, two to three months.

Action on exports of scrap, coming closely after our controls over copper, would seriously impair our relations with West Germany, the principal buyer of aluminum scrap. Demand in that country has been growing steadily and higher levels of production are depending in part upon receiving materials from the U.S. We made the point that the U.S. has an important interest in the development of the German economy and that its raw materials requirements would grow further as that country takes its place in the defense production program of the West.

[Enclosure]

NICKEL

There is a stubborn shortage in nickel which has persisted since before Korea. Most countries retained controls over distribution and consumption until the end of 1953. Since then general prosperity, together with continuing defense production and stepped-up stockpiling in the U.S., has continued heavy demands and accelerated the shortage.

Approximately 85 percent of world production of nickel comes from the Sudbury district of Canada and is principally produced by the International Nickel Company. Cuba at present supplies about 7 percent, New Caledonia 5 percent, and the remaining production is scattered. Exclusive of stockpiling, the U.S. consumes 61 percent of the total world production. Deliveries to the U.S. stockpile account for an additional 25 percent of production. The stockpile program, therefore, is a major contributing factor to the shortage as well as the largest single impact on production. Moreover, knowledge that U.S. stockpiling may be completed by 1958 or 1959 has caused a certain reluctance on the part of private capital to aggressively search for new sources. In recent years, much of the new production has come about through U.S. Government assistance and is to a large extent noncompetitive under ordinary commercial conditions.

Recently the U.S. released 1,000,000 pounds of nickel on stockpile contracts to alleviate the current industrial shortage. Exports from the U.S. are virtually nonexistent, but this fact constitutes no special foreign relations problem. However, a number of governments, including the United Kingdom, Germany, Austria, and Spain have asked the U.S. for help in obtaining nickel. In essence, their request, if complied with, would mean a lower rate of accumulation for the stockpile.

The Committee, especially Senator Capehart,[3] expressed concern at the rate of progress toward the completion of the stockpile objective and at the degree of concentration in the producing industry reflected by the dominant position of the International Nickel Company. It was generally felt that the Government should be more aggressive in fostering exploration and development both here and abroad. Dr. Flemming was not unsympathetic with this attitude but felt in general that all that is practical and promising on any sound basis is being done.

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[3] Homer E. Capehart (R.–Indiana).

199. Editorial Note

On March 24, the Military Petroleum Advisory Board completed a report entitled "A Worldwide Petroleum Program To Fuel a Major War, 1954–1958" that it prepared for the Departments of the Interior and Defense. The study was based on the military petroleum requirements computed by the military services and on basic strategic assumptions developed and approved by the Joint Chiefs of Staff specifically for this study. The three main objectives of this study were: 1) to establish the probable minimum worldwide civilian and military requirements for petroleum in the event of a specific major war; 2) to analyze the adequacy of production, refining, and transportation facilities to meet these minimum requirements; and 3) to set forth what needed to be done to correct any deficiencies of supply that might be found.

In general the study concluded that, subject to the availability of necessary manpower and material requirements, and if certain advance actions were taken, the essential civilian and military petroleum requirements of the free world in the event of a major war could be met. It cautioned, however, that, since its conclusions and recommendations were derived from specific military guidance and assumptions, the use of its recommendations to formulate programs in wartime or peace without reference to these assumptions would be unwise. A copy of the report is in Department of State, S/P–NSC Files: Lot 61 D 167, A National Petroleum Program—NSC 97 Series.

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200. Memorandum of Discussion at the 242d Meeting of the National Security Council, Washington, March 24, 1955 [1]

[Here follows a paragraph listing the participants at the meeting.]

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on March 25.

1. Anti-Trust Laws Affecting Activities Outside the U.S. (NSC Actions Nos. 766–c, 1200 and 1263;[2] Memos for NSC from Executive Secretary, same subject, dated November 1, 1954[3] and March 16, 1955[4])

Mr. Cutler briefed the Council on the background of the problem, and said he would call first on the Attorney General for comment.

The Attorney General alluded to the fact that a trial run as to the effect of the anti-trust laws on U.S. commercial activities outside the United States had been provided by the Iranian case. He reminded the Council that the Justice Department had withdrawn its criminal action against the American oil companies who had participated in the alleged Iranian oil cartel. Meanwhile, the civil case against the oil companies was proceeding smoothly.[5] The oil settlement worked out in Iran,[6] continued the Attorney General, provided a first-rate laboratory lesson at the same time that the committee of lawyers had been preparing the report which was now to be presented to the National Security Council. Mr. Brownell then said he would ask Assistant Attorney General Barnes to summarize the findings and recommendations of Chapter II, entitled "Trade or Commerce with Foreign Nations".

Judge Barnes outlined the findings of the committee in its report, and indicated that the Department of Justice supported the recommendation of the committee on page 92 that, for a designated period of five years beyond the expiration date of the Defense Production Act,[7] the President be authorized to extend the exemption from the prohibitions of the anti-trust law. Judge Barnes added that legislation to accomplish this recommendation had been prepared by the Department of Justice, approved by ODM, and circulated.

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[2] NSC Action Nos. 766–c, 1200, and 1263 are printed as parts of memoranda of discussion at the meetings of the National Security Council on April 22, 1953, August 12, 1954, and November 9, 1954, respectively, in *Foreign Relations*, 1952–1954, vol. I, Part 2, pp. 1351, 1365, and 1375.

[3] Not printed. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Miscellaneous Memos 1954) The memorandum transmitted the memorandum from Stanley N. Barnes, Assistant Attorney General, to James S. Lay, October 29, 1954, printed in *Foreign Relations*, 1952–1954, vol. I, Part 2, p. 1366.

[4] Not found in Department of State files.

[5] On April 21, 1953, the Department of Justice filed civil suits against Standard Oil Company (New Jersey), Socony-Vacuum Oil Company of California, the Texas Company, and Gulf Oil Corporation. Text of this action is printed in U.S. Senate, Committee on Foreign Relations, Subcommittee on Multinational Corporations, *The International Petroleum Cartel, the Iranian Consortium and U.S. National Security*, 93d Congress, 2d Session (Washington, 1974), pp. 35–46. For documentation, see *Foreign Relations*, 1952–1954, vol. I, Part 2, pp. 1259 ff.

[6] An agreement, effective October 29, 1954, between a consortium of eight U.S., Dutch, British, and French international oil companies and the Government of Iran, which resolved the longstanding Iranian oil controversy, and signed by the Shah. See *ibid.*, volume X.

[7] Reference is to the Defense Production Act of 1950 (Public Law 774), enacted September 8, 1950; for text, see 64 Stat. 798.

Discussion then centered on the most desirable mechanism for consultation by the Department of Justice with other agencies of the Executive Branch prior to initiating legal action for violation of the anti-trust laws in instances where issues of foreign policy or of the national security might arise. It was the general view that the prevailing practice of informal consultation on this subject between the Departments of State and Justice was satisfactory.

Secretary Dulles then informed the Council that he wished to make a few general observations with respect to the committee's report. He pointed out that the report had been prepared by a considerable group of eminent lawyers for the Attorney General. The gist of the report was that everything was more or less all right at the present time. Moreover, the committee report appeared to agree with a number of "pretty extreme decisions" by the courts.

Secretary Dulles then queried whether the problem of anti-trust laws affecting activities outside the United States did not require consideration from more than a purely legal point of view, which was so apparent in this report. As a result of three hours of conference with the Senate Finance Committee yesterday, Secretary Dulles said that he was very worried over the prospect of "unrestrained imports" into the United States from abroad, which could result from the unfettered operation of the anti-trust laws. Such unrestrained imports could quite possibly lead the United States Government into the adoption of a quota system for the regulation of imports, and accordingly, to a certain degree of socialism, which would be far from welcome. Moreover, if indeed a quota system were adopted by the United States, it would pose very serious problems in the area of foreign policy. How, for example, would we set about apportioning quotas among friendly foreign countries? All these problems, continued Secretary Dulles, led him to wonder whether some kind of system, which would enable the participating commercial companies to exercise some degree of control over imports of foreign products into the United States, might prove to be better than the present system which, because of the severity of our anti-trust laws, virtually requires the most extreme competition. All this, said Secretary Dulles, should not be taken as an indication that he favored veering away from so-called liberal trade policies. It did indicate his belief that the whole problem needed to be studied from a broader point of view than the strictly legal one.

Secretary Humphrey concurred in Secretary Dulles' judgment that the committee's report provided an excellent legal analysis of how the anti-trust laws were actually affecting American enterprise outside the borders of the United States. On the other hand, what really interested the National Security Council was how best to promote private American investment abroad. It was obvious, said Secretary Humphrey, that American money will tend to go where conditions abroad are best from a competitive point of view. Moreover, the fact cited by Judge Barnes, that only four anti-trust cases had been initiated by the Department of Justice in the course of the last year, was not really as significant as it seemed. The present anti-trust laws were so extremely severe and restricted that many American companies had simply made up their minds not to run the risk of violating these laws. Accordingly, Secretary Humphrey again agreed with Secretary Dulles that the problem represented by the committee's report was not merely what the anti-trust laws provided, but what kind of system will permit attractive foreign investment possibilities to American citizens without at the same time destroying the competition and free enterprise which we wish to preserve domestically in the United States.

In response to Secretaries Dulles and Humphrey, the Attorney General alluded to a recent report by the Cabinet Committee on Energy Resources, which had reached the conclusion that the Administration should continue with its present program of relying on voluntary restrictions of imports rather than to embark on a quota system.[8]

In reply to the Attorney General, Secretary Dulles pointed out that these voluntary arrangements among companies do not in practice work out for a very long period without arriving at something very much like "concert" among the companies concerned. They cut very close to violations of the anti-trust laws. Indeed, many American companies are being forced by circumstances to skirt so close to violations of these laws that it made one wonder whether the Government will not in the near future have to readjust its overall policies respecting the effect of the anti-trust laws on commercial activities by Americans outside the United States. The last thing, said Secretary Dulles, that the United States Congress really wanted was unbridled competition for U.S. markets from abroad. While such competition was OK in the U.S., it was not OK from abroad. Secretary Dulles went on to point out that while the point of view of our country on this subject has matured, we are still adhering to a policy with respect to anti-trust laws which we had outgrown. The real issue before us now in this area could be put in a single question: Where does the real national interest lie?

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[8] Document 195.

The Attorney General pointed out that one of the UN agencies had come up recently with a recommendation for the setting up of an international organization to deal with these problems. The Department of State had opposed these recommendations, and in general the U.S. business community supported State's objections. In any case, said the Attorney General, it was inaccurate to argue that there had been no real study of this problem except in strictly legal terms. Finally, the Attorney General insisted that the Department of Justice had gone as far as it could under the law in an effort to safeguard the interests of American businessmen doing business outside the United States. If it was desired to go further than the committee report recommended, new legislation would be required. The Justice Department would stand by the committee's recommendation that the President be given authority to exempt American companies from the prohibitions of the anti-trust laws in connection with the Defense Production Act for a period of five years.

Secretary Humphrey replied that the five-year limit was very unrealistic from the point of view of the American business investor. People could not plan to invest large sums of money on the assumption that they would be exempted from the action of the anti-trust laws for so short a period. Furthermore, Secretary Humphrey thought that the United States itself, and not some international agency, should decide what was in the best interests of American businessmen. This was no mere legal problem; we were actually confronted with the possibility of having to revise our entire tariff set-up.

The Attorney General repeated that the present report of the committee had gone as far as it was possible to go to clarify action under the present anti-trust legislation.

The President said that the essence of the problem was the question of what authority must be created to deal with foreign competitors rather than with U.S. domestic competition. The President agreed that it would be essential to look into tariff problems and the "most-favored-nation" clauses in our commercial treaties. He confessed, however, that he was not sure as to the next step that we ought to take.

Dr. Flemming inquired whether it would be desirable to extend the five-year interval of exemption from the anti-trust laws in connection with the Defense Production Act, to a longer period, perhaps of ten years. The Attorney General said that that would be OK with the Department of Justice. This view was supported by Judge Barnes. Dr. Flemming went on to point out that we might readily give the President more elbow room, perhaps even up to twenty years. At the suggestion of Mr. Cutler, the Council agreed to extending the period of exemption in accordance with the President's discretion.

The President inquired thereafter as to how best to accomplish the more general study of the problem which had been recommended by the Secretaries of State and Treasury. Mr. Cutler suggested that the Council on Foreign Economic Policy, with added representation from the Department of Justice, was the logical group to undertake such an over-all study. Secretary Dulles thought that this was the right forum, but warned that it would take at least a year to complete such an over-all study.

The National Security Council:[9]

a. Noted and discussed the report on the subject by the Attorney General, transmitted by the reference memorandum of March 16 and summarized orally by Assistant Attorney General Barnes.

b. Agreed that the proposed amendment of Section 708 of the Defense Production Act of 1950 should be revised to authorize the President to extend the exemption from the prohibitions of the antitrust laws for a longer period than five years in any case where such longer period is required to justify U.S. private investment abroad.

c. Requested the Council on Foreign Economic Policy to sponsor a thorough review of Governmental objectives of U.S. trade or commerce with foreign nations in relation to the requirements of the U.S. domestic economy, foreign policy, and national security, and to make recommendations of policy thereon which would be in the national interest under current world conditions; including in such report, among other factors, consideration of (a) the desirability of change in the objectives, provisions, and administration of the antitrust laws as they affect U.S. trade or commerce with foreign nations, (b) the continued use of most-favored-nation clauses in treaties, and (c) the increasing pressures for the imposition of import quotas.

Note: The action in b above, as approved by the President, subsequently transmitted to the Attorney General and the Director, ODM. The action in c above, as approved by the President, subsequently transmitted to the Chairman, CFEP.[10]

[Here follows discussion of the remaining agenda items.]

S. Everett Gleason

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[9] Paragraphs a–c that follow constitute NSC Action No. 1356. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1955)

[10] This subject was entitled CFEP Agenda Subject 524 at the CFEP meeting on March 29; see *infra*.

201. Minutes of the 14th Meeting of the Council on Foreign Economic Policy, Executive Office Building, Washington, March 29, 1955, 4 p.m. [1]

ATTENDANCE

Messrs. Hoover, Jr., Kalijarvi, Humphrey, Burgess, Butz, Weeks, Anderson, Teetor, Blackman, Mullin, White, Stassen, Matteson, Delany, Thorp, Wormser, Tidwell, Hauge, Cutler, Saulnier, Brundage, Cooley, Rock, Dodge, Hutchinson, Cullen

Draft Minutes of the 13th Meeting, Tuesday, March 22, 1955 were approved. [2]

AGENDA SUBJECTS

CFEP 523—Export of Steel Scrap.

1. In CFEP 523/1 Commerce stated that the ACEP recommended a quota of 225,000 tons on export of heavy melting steel scrap for the second quarter of 1955. The Secretary of Commerce [3] reviewed the reasons why he considered the recommendation sound and stated he sought advice of the Council before making a final determination since he understood State would appeal the ACEP recommendation and it was his desire to shorten the appeal procedure.

2. Commerce considered the proposal necessary under the terms of the Export Control Act "to protect the domestic economy from excessive drain of scarce materials and to reduce the inflationary impact of abnormal foreign demand." [4] Conditions leading to this conclusion by Commerce are summarized in CFEP 523/1. Treasury and Defense supported the Commerce proposal.

3. An extended discussion revolved around the following points related to the proposal:

(a) Strategic importance of the domestic scrap supply.
(b) No indication of a current shortage.
(c) No indication of inflated or distorted price relationships.
(d) Increased exports when related to past periods should consider the fact of quantitative controls in 1950–53 and the low level of foreign production following the war.
(e) Effect of quotas on the requirements of foreign nations for their expanded economic growth, rearmament, and trade.

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[1] Source: Department of State, E–CFEP Files: Lot 61 D 282A, Export of Steel Scrap, CFEP 523. Secret. Drafted by Cullen.

[2] Not printed. (Eisenhower Library, CFEP Records)

[3] Sinclair Weeks.

[4] Reference is to the Export Control Act of 1949 (Public Law 81–11), enacted February 26, 1949; for text, see 63 Stat. 7.

(f) Conflict between the quota proposal and the trade liberalization policy of the Administration.

(g) Implications of imposing economic controls on a case-by-case basis.

(h) Quotas on scrap exports might not conserve U.S. supplies without quotas on end products.

(i) Implications of imposing export controls to meet a shortage and not providing corresponding assistance to meet a surplus.

(j) Exclusion of Canada and Mexico might be inconsistent with the most favored nation clause.

(k) No indication that scrap exports were going behind the Iron Curtain and no indication of foreign stockpiling.

(l) Imposition of a quota on short notice and with no warning would create consternation abroad.

4. As a result of this discussion, it was the consensus of opinion that quotas should not be established on the export of ferrous scrap pending the consideration of more complete information based on a further study by ACEP concerning:

(a) Effects of scrap exports on current and expected steel production; if the problem is of short or long term nature.

(b) Requirements of scrap for friendly foreign countries, particularly Japan, the United Kingdom and the European Coal and Steel Community.

(c) Possible evidence of abnormal stockpiling abroad.

(d) Reasons for the high proportion of exports of heavy melting scrap.

(e) Possible movement of U.S. scrap or its end products behind the Iron Curtain.

GENERAL

1. Because of the time consumed in discussing CFEP 523, consideration of remaining agenda subjects was deferred to the next meeting.

2. The Chairman has been notified that the President has approved NSC Action No. 1356–c[5] of March 24 which requested the Council on Foreign Economic Policy to sponsor a thorough review of Governmental objectives of U.S. trade or commerce with foreign nations in relation to the requirements of the U.S. domestic economy, foreign policy, and national security, and to make recommendations of policy thereon which would be in the national interest under current world conditions; including in such report, among other factors, consideration of (a) the desirability of change in the objectives, provisions, and administration of the anti-trust laws as they affect U.S. trade or commerce with foreign nations, (b) the

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[5] See footnote 9, *supra*.

continued use of most-favored-nation clauses in treaties, and (c) the increasing pressures for the imposition of import quotas.

This subject has been titled CFEP Agenda Subject #524 "Effect of Existing Anti-trust Laws on U.S. Foreign Activities." [6]

Paul H. Cullen
Lt. Col. USA

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[6] Not printed. (Eisenhower Library, CFEP Records)

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202. Memorandum of Discussion at the 249th Meeting of the National Security Council, Washington, May 19, 1955 [1]

[Here follow a paragraph listing the participants at the meeting and item 1.]

2. A National Petroleum Program (NSC 97/6; [2] Progress Report, dated May 9, 1955, by ODM on NSC 97/6 [3])

Mr. Anderson briefed the Council at length on the evidences of progress and lack of progress contained in the reference ODM report (copy of Mr. Anderson's brief [4] filed in the minutes of the meeting).

At the conclusion of Mr. Anderson's briefing the President inquired of Dr. Flemming whether, in the course of making plans for adequate supplies of petroleum to fuel a major war, account was taken of supplies of petroleum which could be secured by restricting public consumption by automobiles, etc. Dr. Flemming replied that it was part of the basic responsibility of the Office of Defense Mobilization to coordinate such plans, and that the factor of rationing had been taken into account in the new study of supplies and requirements for petroleum in the event of an emergency. Rationing, in fact, accounted for an 18% cutback.

Dr. Flemming then stated his complete agreement with the analysis of the Progress Report which had been presented in Mr.

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on May 20.

[2] NSC 97/6, entitled "A National Petroleum Program," November 16, 1953, is printed in *Foreign Relations*, 1952–1954, vol. I, Part 2, p. 1054.

[3] A copy of this report, entitled "Progress Report on a National Petroleum Program," is in Department of State, S/P–NSC Files: Lot 61 D 167, A National Petroleum Program (NSC 97 Series).

[4] Not found in Department of State files.

Anderson's brief. He agreed that the existing statement of policy on a national petroleum program was too detailed, and that the new policy on the subject would be more general in form.

The National Security Council: [5]

Noted and discussed the reference Progress Report by the Office of Defense Mobilization on the subject; but deferred action as to the specific recommendations contained therein, pending consideration of a recommended revision of NSC 97/6 to be submitted by the Office of Defense Mobilization through the NSC Planning Board.

Note: The above action subsequently transmitted to the Director, ODM.

[Here follows discussion of the remaining agenda items.]

S. Everett Gleason

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[5] The following paragraph constitutes NSC Action No. 1402. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1955)

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203. Editorial Note

Under cover of a memorandum of August 3, Assistant Secretary Waugh sent Under Secretary Hoover a report entitled "Actual and Scheduled Oil Imports in Relation to the Formula Recommended by the President's Advisory Committee on Energy Supplies and Resources Policy." This report showed the extent to which the oil importing companies were abiding, or failing to abide, by the recommendations of the President's Advisory Committee. Based on the findings outlined in the report, Waugh recommended that the Advisory Committee give "serious consideration to relating its recommendation regarding the limitation of residual fuel oil imports, preferably to free such imports altogether." (Department of State, Central Files, 411.006/8–355)

204. Memorandum From the Acting Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Acting Secretary of State[1]

Washington, September 27, 1955.

SUBJECT

Background Paper on Intergovernmental Commodity Arrangements

Discussion

In the CFEP meeting on July 20 there was a brief discussion of commodity arrangements and Mr. Dodge asked whether any of the members desired to place additional background material before the Council on this subject.[2]

Mr. Waugh stated that this Department would like to circulate a discussion of the subject as additional background. He hoped that this would contribute usefully at whatever time specific action problems might be considered by the Council.

The paper to be circulated by State would not be addressed to any particular current problem. Circulation of the paper therefore would not amount to pre-judging the position the Department would take on any specific question. We have found in the past however that there is danger of some prejudices concerning these subjects being aroused quickly after a specific question has arisen. It is difficult thereafter to obtain objective consideration of numerous aspects of the problem which deserve to be taken into account.

The paper we have prepared is therefore in the form of a review and discussion of various ramifications and past actions. This has been checked generally throughout the Department and has been submitted to staff members in other agencies for comment. We did not ask for clearance by other agencies but we have made more revisions in response to their suggestions.

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[1] Source: Department of State, Central Files, 411.0041/11–2155. Official Use Only. Drafted by Nichols.

[2] Under cover of a memorandum, July 1, to the Council on Foreign Economic Policy, Cullen circulated a paper prepared by his staff entitled "U.S. Participation in International Commodity Agreements", in anticipation of the Council's discussion of CFEP 531, "U.S. Policy With Respect to International Commodity Agreements". In a memorandum of July 7 to Samuel C. Waugh, Nichols discussed the inadequacy of the CFEP paper. He wrote in part that it did not "provide any reasonable basis for a serious discussion of the policy", that it was not only "highly abbreviated" but also "deliberately slanted" with implications that were "improper and inaccurate". On September 13, a CFEP draft "Staff Study on International Commodity Agreements" was circulated to the Council for review. For a brief summary of this study as revised, dated October 5, see *infra*. These documents are in Department of State, E–CFEP Files: Lot 61 D 282 A, International Commodity Agreements—CFEP 531.

The particular type of presentation we desired to make did not lend itself to the standard form of documents which are circulated as CFEP papers on current action problems. Our discussions with the CFEP staff have led to the conclusion that the best means of circulation would be for State to send its paper directly to the other members including of course Mr. Dodge.

Recommendations

It is recommended that the attached discussion of United States policy toward intergovernmental commodity arrangements (Tab A) be sent to the other members of CFEP with a transmittal memorandum (draft memorandum attached as Tab B [3]).

If you approve, I will proceed with this distribution. [4]

[Tab A]

A REVIEW AND DISCUSSION OF UNITED STATES POLICY TOWARD INTERGOVERNMENTAL COMMODITY ARRANGEMENTS

(Prepared by the Department of State as a background paper for submission to the members of the Council on Foreign Economic Policy)

Problem

The national interests of the United States are directly and significantly involved in a limited number of commodity situations which at times require this Government to take a position on the question of entering into an international commodity agreement. The subject of intergovernmental commodity arrangements arises frequently in international discussions of economic affairs. The United States Government therefore finds it necessary not only to have a definite policy but also to state it on numerous occasions with the object of obtaining a wide understanding and appreciation of that policy and the reasons for it.

Background

For purposes of this discussion, trade controls which are concerned entirely with considerations of security are excluded. Commodity agreements are considered to include all other arrangements in which three or more governments make specific commitments having the purpose or effect of regulating the quantity or price of one or more commodities in international trade. Such agreements may vary greatly in their form and methods of operation as well as in their objectives, effects, and participation.

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[3] Not printed.

[4] Approved by Hoover on September 27.

This definition is broad enough to include temporary international arrangements for rationing or price controls to deal with an acute shortage in time of war or other general emergency. However, the practical problems and policy aspects of such emergency short supply arrangements are clearly distinguishable (in the United States view at least) from regulatory programs proposed or undertaken at other times. The discussion in this paper is therefore limited to these other types of arrangements which are designed generally to reduce the instability of commodity prices even in the absence of severe shortages related to a general emergency. The long term trend or average of prices is a separate matter but the relationship of this to action taken with a view toward moderating fluctuation is considered at a later point in this discussion.

It is not possible for governments to ignore the basic problem of instability in the prices of major commodities. Many of the basic foodstuffs and raw materials are subject to price fluctuations much greater than those of manufactured products and greater than any which are needed or useful for the fundamental economic purpose of guiding desirable adjustments of production. These comparatively violent fluctuations in the prices of primary commodities can have seriously harmful effects upon large population groups and wide areas which are heavily dependent upon the earnings derived from particular commodities.

Some problems of this kind exist within the United States or develop in this country from time to time in a manner which requires the earnest consideration of this Government. These problems in the United States present an urgent claim for governmental attention notwithstanding the large and diversified economy of this country and its high degree of dynamic mobility.

Some other countries are concerned by similar problems to a proportionately much greater extent. Their total employment, tax revenues, and earnings of foreign exchange are largely dependent upon one or a few commodities. Developments in these commodities are vital to the social and political structure in those countries. Excessive instability of commodity prices can retard economic development and reduce defense capabilities in many important areas of the Free World.

The United States Government and other governments therefore find that erratic marketing conditions for some leading commodities present on occasion very difficult problems which involve a complex of considerations: social, political, and strategic, as well as economic. The reality of these problems, and the importance of the interests involved in them, warrants review of pertinent United States policy and confirmation of its adequacy.

Basic United States Policy

The traditional view of the United States emphasizes that a maximum reliance on market forces will promote economic development and well being. This is the basic policy perspective, notwithstanding numerous exceptions, especially in agriculture. In the absence of a compelling showing to the contrary in specific circumstances, this policy presumes that the public interest is best served by a high degree of freedom for individual enterprise and incentives under competitive conditions. The policy emphasizes concern over rigidities which would inevitably accompany wide-spread intergovernmental intervention in markets under comparatively ordinary conditions.

Some who advocate a larger role for governments in economic affairs may criticize the United States view and charge that it is excessively passive or negative. The United States is convinced however that its view is a broadly positive approach to economic progress. United States policy seeks in general to release and encourage the constructive forces of private enterprise. It recognizes that private enterprise requires a high degree of freedom and competition for its full development in the public interest.

Extensive resort to governmental controls could deprive individuals of basic freedoms which the United States would much prefer individuals to have and to use consistently with the national interest. Regulation of production or marketing or prices could be a heavy drag on the continuous process of economic adaptation toward more efficient employment of resources and higher standards of living.

As for governmental policies which would best assure against undue depression in commodities, the United States looks primarily to broad measures (such as tax and credit policy) designed to insure the maintenance of generally high levels of economic activity without inflation. Successful administration of such policies would in itself assure a generally high demand for commodities. The United States considers furthermore that well-conceived national measures offer more practical promise in this connection than international programs. It is recognized of course that some underdeveloped countries, whose progress and capital development are most heavily dependent on export earnings, are also underdeveloped in their capacity to administer effectively such contra-cyclical measures as national credit controls and flexible tax policies.

Applications of Policy

The United States opposes strongly certain lines of international action which are sometimes proposed in connection with the international trade of commodities but which would inevitably introduce rigidities and substitute official decisions for private judgment and responsibility on a scale so broad as to be unnecessary and unwise, as well as impractical, in the United States view.

Such proposals include the concept of international parity prices; regulation of relationships between the prices of primary commodities and manufactured goods in international trade; commodity reserve currency; and multi-commodity agreements.

Even in the case of the more limited type of proposal which is directed toward an intergovernmental agreement for a single commodity affected by exceptionally troublesome circumstances (such as wheat or sugar), the policy of the United States is first to explore all possibilities of satisfactory solutions which avoid direct regulation. Although this Government has been willing to consider such situations on a case by case basis, the United States has consistently placed a heavy burden of justification upon the advocacy of a commodity agreement. When resort to a commodity agreement has been found justified in an exceptional case, the United States has desired nevertheless to minimize the extent and duration of the regulation consistently with all of the national interests of the United States which are directly involved.

If the original misgivings in principle are overcome in the course of examining the particular situation it is nevertheless necessary to scrutinize very closely the detailed arrangements connected with the specific agreement. Commodity agreements tend to become very complicated in their administration. They may require substantial sums of government money. Such agreements need to be safeguarded carefully against becoming continuing subsidies. Care has to be exercised that they do not unnecessarily circumscribe opportunities for individual initiative and competition and that they do not unduly jeopardize progress in economic adjustment and economic development.

The Alternative Is Not Always a Free Market

A realistic approach requires recognition that national price support measures, particularly in agricultural commodities, are so firmly imbedded in the policies of so many countries that the question of a free market is irrelevant to the visible future of some major commodities. Modifications of support levels can be discussed and frequently are. Some programs of national governments could be shifted from prices to income support. Such changes however would not produce a market situation essentially free of governmental intervention in major commodities which sometimes give special concern leading to consideration of commodity agreements. The large scale of some governmental programs, such as stockpiling and the disposal of agricultural surpluses, inevitably affects the nature and operation of commodity markets, regardless of any decisions made concerning international agreements.

The question of a commodity agreement appears in a somewhat unwelcome but nevertheless special light if it is found that the advantages which one would ordinarily hope to be attainable through a relatively free market could not in fact be achieved irrespective of any decision concerning an intergovernmental agreement.

However unfortunate this may seem from some points of view, the alternative to a commodity agreement may not be a situation of private and competitive trade on a multilateral basis. The alternative may be wide-spread and uncoordinated national regulation; perhaps intensified to a stage of economic warfare; emphasizing state trading, bilateral agreements, and subsidies.

Wheat and sugar are examples of commodities in which regulation by national governments is deep rooted and almost universal. The question of an international agreement in these commodities does not present itself as a choice between freedom and regulation. The actual decision to be made is whether or not an appreciable advantage is seen in an international framework for consideration and coordination of national measures. The prospect is that national programs of regulation will proceed in any case, with significant effects on the vital interests of numerous other countries directly concerned with world trading conditions for the particular commodity.

The United States is participating in the International Wheat Agreement and the International Sugar Agreement. Neither of these agreements has complete coverage of international trade in the commodity concerned. Both have limited capabilities for effective stabilization but each of them is credited with some amelioration of trade conditions which would have existed in the absence of an international agreement. The International Wheat Agreement expires in 1956; consideration is being given to the question of renewal and, if so, in what form.[5]

The Inherent Advantages of a Relatively Free Market May not be the Only Important Concern of the United States

Examination of a particular important world commodity has sometimes shown that the advantages attainable by avoiding international regulation would necessarily be accompanied by special difficulties so serious as to require careful weighing of the balance of United States national interests in the particular case.

The International Tin Agreement of 1953 raised questions of this kind. The threat of extreme instability in the price of tin was related directly to the termination of procurement for the United States stockpile. This instability would fall most heavily on areas in which the United States has significant political interests (Bolivia, Indonesia, Malaya, and Thailand). The United States decided not to sign the tin agreement but recognized publicly that the agreement could be made effective without United States participation and stated that this Government would not oppose the agreement being brought into operation if that was the desire of a sufficient number of other interested governments. Entry into force is now awaiting ratification by Indonesia.

The number of commodity situations which might develop a balance of United States interests problem of this type is undeniably small. It is essential however that the United States specifically consider the balance of its national interests in each such situation. The aggregate of United States interests could not be well served by a doctrinaire approach which took no account of the facts and United States interests directly involved in the particular case. The attitude of the United States toward such exceptional cases is a subject of intense interest to other governments and significantly affects their overall appreciation of the foreign economic policy of the United States.

Some Special Problem Cases

The United States has recently indicated its willingness to consider with other governments the special problems in the international trade of coffee and rice, including proposals for stabilization.

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[5] The International Wheat Agreement of 1949 was renegotiated in Washington April 13–27, 1953, and entered into force for the United States, August 1, 1953; for text, see 4 UST 994. The International Sugar Agreement was concluded in London on October 1, 1953, and entered into force for the United States, May 5, 1954; for text, see 6 UST 203.

Special programs of the United States Government for the export of surplus agricultural commodities may stimulate interest in international agreements for some of these commodities. Considerable opinion in the United States has been emphasizing increasingly the objective that the United States shall have a "fair" share of world trade, obtained through various forms of export subsidies. However it must be recognized that a declaration of "fairness" in such a matter can not be meaningful, or at least can not be generally acceptable, if the determination is made unilaterally. The quality of "fairness" in this connection is usually taken to be meaningful only if the share reflects agreement with other interested parties, since an objective criterion of "fairness" is not ordinarily available.

There is no active discussion of a cotton agreement at present. However the possibility of a revival of such discussion is inherent in the present and prospective cotton situation, despite the administrative complexities disclosed by previous extensive discussions of cotton regulation as a practical problem.

The International Cotton Advisory Committee includes in its membership most of the governments which are substantially interested in the cotton trade. This committee keeps the world cotton situation under close review and would be the forum in which any proposals for renewed consideration of an agreement would be likely to be made.

The United States takes some actions or has some interests in non-agricultural commodities which at times become related closely to the nature and purpose of commodity agreements. These may set the stage for discussion of an agreement or constitute a leading step toward such discussion. For example if it is the desire of the United States to avoid increased imports of lead, zinc, or petroleum, it might be found as a practical matter that this would require an arrangement under which the shipments by several other countries would be regulated by their respective governments in accordance with a definite pattern established through agreement among the group of governments, including the United States.

Limitations and Possibilities of Commodity Agreements

The process of negotiating a commodity agreement has been found to be very laborious. Great difficulties of reconciling divergent interests need to be surmounted before an agreement can be brought into force. Intergovernmental agreements therefore emerge only slowly and not by any means in all of the small number of commodity situations where serious consideration is given.

When an international agreement for rubber was a subject of major interest to other governments, the United States avoided the difficulty in foreign relations which would have resulted from a rejection of the proposals in principle and eventually achieved a general recognition of the lack of necessity disclosed by an examination of the facts on their merits.

Some of the commodity agreements which have been brought into force have proven not to have very significant effects on prices or trade. Such ineffectiveness is sometimes the result of the compromises in objectives and methods of operation which were found necessary to induce sufficient acceptance and participation by divergent interests.

To the extent that the practical effects of commodity agreements either for good or harm in economic terms are less than those which might have been hoped by some or feared by others, the total significance of the agreements becomes proportionately more intangible. The primary significance in some cases may be the effects in general relations which follow from a willingness or unwillingness to consult and attempt some limited degree of joint approach. This places the emphasis on forms of international cooperation rather than on economic objectives or results. The existence of a joint stabilization effort may induce some actions consistent with its purposes, beyond those directly required or demonstrably caused.

Dangers and Necessary Safeguards

Any commodity agreement is likely to involve dangers against which specific safeguards must be provided to avoid action which is excessively narrow-minded in not recognizing all of the interests affected, or unduly short-sighted regarding economic consequences.

It is not unusual for some or most of the governments concerned with a commodity agreement to be preoccupied with the so-called "producer interests" as distinguished from the "consumer interests". This preoccupation may not be soundly conceived either from the standpoint of producing interests or from the standpoint of desirable economic adjustments over a representative period of time.

Much of the United States thought concerning commodity agreements has emphasized that they should not freeze patterns of production or marketing or establish continuing subsidies. A corollary is that the agreement should include provisions which would encourage and exploit all possibilities for reducing the degree of regulation and returning freedom to markets when circumstances permit.

A further point of much emphasis has been that stabilization agreements should be guided by the principle of avoiding an increase or decrease in the average of prices which would have been maintained over a representative period in the absence of the agreement.

The fact that this principle is so difficult to apply in practice, even under the most favorable circumstances, seems to make it especially important for the conception to be firmly in mind and constantly stressed as an objective.

These propositions have led to the view that agreements should not be binding on governments for long periods. There is excessive danger of losing touch with underlying developments unless an opportunity for review and reconsideration is allowed at intervals of five years or less.

The United States has taken the position on numerous occasions that the negotiation and administration of agreements should be subjected to considerable publicity and disclosure of the principal policy considerations at all stages.

The United States has consistently supported the view that agreements should be open to participation by the governments of all interested countries. Adequate opportunities for effective participation by importer and consumer interests has been thought particularly important. The United States has recognized that the equitable interests of non-participating countries need to be borne in mind constantly and assured of full consideration.

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205. Brief of Staff Study on International Commodity Agreements Prepared by the Staff of the Council on Foreign Economic Policy [1]

Washington, October 5, 1955.

Problem: To determine U.S. policy with respect to international commodity agreements (ICA's).

Facts: The U.S. has not determined clearly its policy regarding participation in or support to ICA's. A decision will be needed in the near future as to U.S. participation in a possible new international wheat agreement. Actions by the U.S. with respect to ICA's have been taken largely on a case-by-case basis.

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[1] Source: Department of State, E–CFEP Files: Lot 61 D 282A, International Commodity Agreements—CFEP 531. Official Use Only. Circulated to the members of the CFEP under cover of a memorandum of October 5 from Cullen. Cullen noted that the staff study reflected the comments of the Departments of Agriculture, Commerce, State, the Treasury, and the International Cooperation Administration on the draft of the Staff Study on International Commodity Agreements of September 13; see footnote 2, *supra*.

Discussion: The U.S. is now participating in two ICA's: wheat and sugar. U.S. entry into these agreements was largely committed by the previous Administration and took place soon after the current Administration took office. Limited agreements have operated in the past for wool and tea although they have not included the U.S. A tin agreement in which the U.S. declined to participate has been ratified by several governments but is now awaiting ratification by Indonesia before entry into force. Conferences have been held to consider agreements for cotton and rubber but no agreements have emerged. It is possible that proposals will be made for ICA's covering other commodities where special problems exist. These include coffee, cocoa, rice, lead, zinc, and petroleum. Pressure for the consideration of ICA's has come largely from foreign governments primarily on the grounds that they are a possible device to bring about price stability and an orderly sharing of markets.

Within the Executive Branch somewhat different appraisals have been made with respect to the effects of ICA's. These include differences as to the extent of interference with free markets; the contribution to price and market stability, the usefulness in gaining international support for U.S. actions to increase or maintain exports, or to control imports; possible use to assist foreign economies, and the impact abroad of the U.S. attitude.

Conclusion: Alternative U.S. positions suggested with respect to ICA's are as follows:

a. The U.S. is opposed to U.S. participation in or support of international commodity agreements. Exception to this policy should be considered only when it is demonstrated that such participation or support is clearly in the national interest.

b. The U.S., although not favoring the extensive resort to ICA's, believes there are situations where ICA's may be appropriate and desirable. In approaching the question internationally, the U.S. should take a sympathetic attitude and should consider the participation in or support to specific agreements on the basis of the practical interest of the U.S.

Recommendation:

a. That the Council on Foreign Economic Policy consider the alternative policy statements regarding international commodity agreements stated in the conclusions above.

b. That the Council authorize the appointment of an inter-Agency committee to develop for its approval a statement of policy guidelines to implement such policy as may be adopted with respect to international commodity agreements.

206. Minutes of the 29th Meeting of the Council on Foreign Economic Policy, Executive Office Building, Washington, October 25, 1955, 4 p.m. [1]

ATTENDANCE

Messrs. Hoover, Kalijarvi, Nichols, Morse, Butz, Pendleton, Cooley, Rock, Thorp, Rockefeller, May, Hauge, Davis, Anderson, Johnson, Brundage, Hutchinson, Fitzgerald, Charrette, Smith, Foster, Humphrey, Overby, McCaskill, Dodge, Cullen, McGlauflin

Draft Minutes of the 28th Meeting, Tuesday, October 11, 1955 were approved. [2]

AGENDA SUBJECTS

CFEP 531. U.S. Policy With Respect to International Commodity Agreements. [3]

1. The Chairman summarized and reviewed the proposals in CFEP 531/1 concerning U.S. policy with respect to international commodity agreements. After discussion of the proposed U.S. positions the Council adopted the following policy statement:

"The United States shares the concern of other nations about the problems arising from commodity price and market instability and is prepared to discuss and explore with other governments possible approaches to these problems.

"The United States believes that there are few situations where international commodity agreements may be appropriate or desirable and the United States would be prepared to participate in a particular commodity agreement only when such participation can be demonstrated to be clearly in the national interest of the United States.

"Representatives of the United States will not participate in any discussion or meeting with respect to an international commodity agreement and will make no commitment as to U.S. participation in such an agreement until approved at the inter-agency policy level within the Executive Branch."

2. The Council discussion emphasized that the above policy statement was to ensure that United States interests were determined at the policy level prior to any discussion which might lead to misimpressions or implied commitments as to U.S. intentions with respect to new proposals or proposals to renew or withdraw from existing agreements.

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[1] Source: Eisenhower Library, CFEP Records, Minutes. Confidential.

[2] Not printed. (*Ibid.*)

[3] Documentation on this subject is *ibid.*, CFEP 531 Agenda Subject File.

[Here follows discussion of unrelated subjects.]

Paul H. Cullen
Lt. Col., USA

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207. Letter From the Director of the Office of Defense Mobilization (Flemming) to the Oil Importing Companies [1]

Washington, October 29, 1955.

In a letter dated August 5, 1955,[2] I called attention to my responsibilities under the Trade Agreements Extension Act of 1955[3] and to recommendations of the Presidential Advisory Committee on Energy Supplies and Resources Policy concerning imports of oil. In addition, oil importing companies were requested to provide me with information on oil imports during the first seven months of 1955 and the corresponding months of last year together with statements of the import policy for each company with respect to the remainder of 1955 and the first six months of 1956.

In a subsequent letter dated September 12, 1955,[4] I advised the oil importing companies that on the basis of information furnished by them it appeared (a) that imports of crude and residual oils had increased more rapidly than the domestic production of crude oil, (b) that half the companies reporting imports of crude oil had exceeded the ratio recommended by the Presidential Advisory Committee and three-fourths of the companies reporting imports of residual oils had exceeded that ratio, and (c) that unless company policy changes were made, the imports would continue to be substantially above the standard recommended by the Advisory Committee. This trend of developments naturally pointed to the conclusion that, in the absence of individual voluntary action over and above that already taken, it would be necessary to seek other means of implementing the recommendations of the Advisory Committee.

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[1] Source: Department of State, Central Files, 411.006/10–2955. The source text bears no drafting information. A copy of this letter was circulated to the members of the Presidential Advisory Committee on Energy Supplies and Resources Policy under cover of a memorandum dated October 29 from Joseph F. Vaughan, Committee Secretary, who stated in part that the letter was "released to the oil importers today by Mr. Flemming."

[2] Not printed. (*Ibid.*, 411.006/8–1055)

[3] Public Law 86, enacted June 21, 1955; for text, see 69 Stat. 162.

[4] Not printed. (Department of State, Central Files, 411.006/9–1555)

The information furnished by importing companies, and that available from other sources, has been reviewed and evaluated in terms of the responsibilities of the Director of the Office of Defense Mobilization, including the specific responsibility imposed by Section 7 of the Trade Agreements Extension Act of 1955 (P.L. 86).

Viewed in broad perspective, the results of this factual review may be highlighted as follows:

The Oil Industry and the Level of Economic Activity

1. Stimulated by a steadily rising level of general economic activity, both domestic producers and importers of petroleum products have enjoyed an expanding market substantially above the level anticipated at the time the recommendations of the Advisory Committee were announced. At that time (February 1955), the contraction of our economy which characterized 1954 had already given way to increasing production and employment on a broad front. By September 1955, industrial production had reached a record level 14 per cent above last year.

Crude Oil—Expanding Demand and Domestic Production

2. Responding to a record total demand for crude oil nearly 7 per cent above last year, total domestic production of crude oil during January–September 1955 exceeded 1954 by nearly 6 per cent, despite a slight decline on the West Coast. East of the Rockies domestic production was 7 per cent above 1954. Exploratory activity, as indicated by drilling, has been 12 per cent above 1954, while well completions were over 7 per cent higher. The average price of crude oil at the well has remained stationary during 1955 at the postwar peak level of $2.82 per barrel. Stocks of crude oil on September 30, 1955 were down 20 million barrels or at the rate of 55,000 B/D from September 30, 1954. While imports of crude oil during January–September 1955 were 16 per cent above the same period in 1954, the increase of 105,000 B/D represents an excess of 67,200 B/D over the amount allowed by the Committee recommendation, or less than 1 per cent of total U.S. crude oil demand in the same period.

Residual Fuel Oils—Total Demand Up, Domestic Production Stationary

3. A sharply expanded total demand for residual fuel oil this year, exceeding 1954 by 8 per cent, failed to bring forth a larger domestic production. During January–September 1955 domestic production remained practically unchanged from the level of 1954. Supply was further tightened by an export volume 26 per cent above

the level of 1954. Stocks were drawn down during the first 9 months of 1955 by nearly 5 million barrels, averaging 20,000 bbls. daily, whereas they increased 27,000 bbls. daily on the average during the same period 1954. While imports during January–September of this year were up 70,000 B/D, or 21 per cent over the level of 1954, this represented an excess of 51,000 B/D over the Committee recommendation, or approximately 3 per cent of total domestic demand.

Imports Compared with the Committee Recommendation

4. The recommendations of the Advisory Committee on Energy Supplies and Resources Policy, released on February 26, 1955, did not allow opportunity for importers to make adjustments which could be reflected in the statistics of the first quarter. Because of contractual obligations and related circumstances, some companies were unable to effect significant adjustments until much later.

5. Comparing actual and scheduled imports of residual fuel oil for the period subsequent to the first quarter, namely April 1–December 31, 1955, with the amount of imports allowable under the Advisory Committee recommendation, there will be residual fuel oil imports of 7,000 B/D under the Committee recommendation, if present programs are carried out. For the third quarter the excess of imports over the Committee standard declined sharply and in the fourth quarter scheduled imports will drop below the Committee recommendation.

6. Comparing actual and scheduled imports of crude oil for the period April 1–December 31, 1955 with domestic production (partially estimated), and excluding the special case of imports of Canadian origin, mainly into the Northwest deficit area, there will be an excess of imports of crude oil over the Committee standard, if present programs are carried out, of 50,000 B/D. This is approximately 7 per cent above the Committee recommendation and is under 1 per cent of total crude oil demand. Leaving aside certain unevaluated information recently received, it is clear that certain importing companies have made commendable efforts to follow the Committee recommendation, including importers of oil from Venezuela who, we understand, have been encouraged in this effort by the Venezuelan Government. Nevertheless, these efforts have not been sufficient to bring actual and scheduled imports of crude oil into a satisfactory relation to the Committee standard.

Conclusions

The Presidential Advisory Committee on Energy Supplies and Resources Policy, after appropriate consultation, has concluded:

(a) With respect to residual fuel oils, actual and planned imports for the period April 1–December 31, 1955 appear to be in accord with the Committee recommendation, on the basis of information now available.

(b) With the exception of oil of Canadian and Venezuelan origin, and assuming that imports from these areas do not rise appreciably above present levels, importers of oil from other areas should further reduce their planned imports of crude oil for the period April 1–December 31, 1955 by approximately 7 per cent, if a substantial conformity with the Advisory Committee recommendation with respect to crude oil is to be achieved.

I have accepted the conclusions of the Committee and am communicating them for the guidance of each company on a voluntary basis.

Because of a lack of clarity in the program statements of some of the importing companies for 1956, I have not presented a statistical projection of the import situation for that period. However, my continuing responsibility under Public Law 86 imposes the necessity of seeking full information as a basis for such action as may be required.

A request for reporting on a systematic basis will be forwarded within ten days. It is my hope that the first reports will make it possible for us to find that voluntary action has been taken by all companies of such character, both with reference to the last quarter of 1955 and the first quarter of 1956, as to constitute substantial compliance with the Advisory Committee's latest conclusions as set forth in this letter.

Sincerely yours,

Arthur S. Flemming[5]

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[5] Printed from a copy that bears this typed signature.

208. Memorandum From the Secretary of the Council on Foreign Economic Policy (Cullen) to the Members of the Council [1]

Washington, November 8, 1955.

SUBJECT

CFEP 526—U.S. Stockpile Program and Its Relation to U.S. Foreign and Domestic Problems

1. In view of the time that has elapsed since CFEP 526 was initiated, [2] the following status report is submitted for the information of Council members.

2. *The Council on May 17 requested ODM to submit a factual report* concerning (a) "the nature, purpose and limits of the minimum, long-term and supplemental stockpile objectives and their relationship to each other," and (b) "the extent and manner in which transactions related to these stockpiles may have been used to accomplish purposes in addition to the provision of a supply of materials which have been determined as required solely in the event of war." (The Council agreed that upon receipt of the report, consideration would be given to a further review of the subject.)

3. *The above action was the result of previous discussions by the Council on February 15, March 1, and March 8* concerning the stockpile program (CFEP 517).

4. ODM advised on May 18 that the requested report would be ready for Council consideration by May 31.

5. On May 25 ODM reported that Mr. Flemming had decided that the report should not be submitted to the Council until it had been approved by the Defense Mobilization Board, and it would take approximately 30 days to prepare the report and obtain DMB approval.

6. A report was prepared by ODM and submitted to the DMB on August 10, 1955. [3] This report discussed the nature, purpose, and relationship of the different stockpiles but did not cover the limits of the stockpile objectives and did not state or discuss the extent and manner in which stockpile transactions may have been used to

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[1] Source: Department of State, E–CFEP Files: Lot 61 D 282A, U.S. Stockpile Program—CFEP 526. Secret.

[2] At the meeting on March 8 the Council decided that its consideration of the Office of Defense Mobilization (ODM) recommendations with respect to Agenda Subject 517, "Strategic Stockpile and P.L. 480," should be deferred pending "reconsideration of the fundamental policies related to the objectives, size, and uses of the stockpile program." The minutes of this meeting are in Eisenhower Library, CFEP Records.

[3] Document 213.

accomplish purposes other than to provide materials required solely in the event of war.

7. The DMB considered this report at its meeting of August 17 but deferred action thereon pending a review by the NSC as to whether stockpiling should be based on a five year war (as is now the case) or one of lesser or greater duration.

8. The question raised in paragraph 7 above was referred to the NSC, which is expected to consider the matter in the near future. The report the CFEP requested cannot be completed until the question of stockpiling for a five year war, or one of lesser or greater duration, is determined.

9. ODM was advised on September 15, 1955 that the report submitted to the DMB did not satisfy the request of the CFEP on May 17. ODM gave assurance that the report to be submitted to the CFEP would cover the subject as requested.

Paul H. Cullen
Lt. Col., USA

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209. Memorandum of Discussion at the 265th Meeting of the National Security Council, Washington, November 10, 1955[1]

[Here follows a paragraph listing the participants at the meeting.]

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on November 11.

1. *Defense Mobilization Planning Assumptions Applicable to Stockpiling* (NSC 5414/1;[2] NSC 5501, par. 55;[3] Memo for NSC from Executive Secretary, subject: "Defense Mobilization Planning Assumptions Applicable to the Stockpiling Program for Strategic and Critical Materials", dated September 27, 1955; Memos for NSC from Executive Secretary, same subject, dated November 2 and 9, 1955[4])

Mr. Dillon Anderson briefed the National Security Council, and explained the issues involved in the reference paper. He then called on Dr. Flemming, who had indicated a desire to make a statement.

Dr. Flemming said that he would like permission to make a detailed statement on the problem of stockpile assumptions in order that the National Security Council might proceed to its discussion with a common factual basis. (A copy of Dr. Flemming's lengthy report,[5] on which his oral statement was based, is included in the Minutes of the meeting.)

At the conclusion of his formal statement, Dr. Flemming went on to point out that he would now speak bluntly about the implications of the facts and figures he had just given, particularly the domestic political implication of these facts. He reminded the Council that any action it might take with respect to changing the assumptions on which the stockpiles were based, would have to be sent unclassified to the Congress. Problems were bound to be raised by the Governors of the western mining states.

In concluding his remarks, Dr. Flemming expressed the earnest hope that the Administration would never permit the sale of any materials in the stockpile which were in excess of estimated requirements, either for a 5-year or a 3-year war. If the Administration did so, the effect would be to put the United States economy at the mercy of the Executive Branch of the Government. This would be a terrific power, which might readily be abused by some future Administration. In short, the Executive Branch should be denied the authority to dump materials from the stockpiles, no matter what was assumed to be the length of a future war.

Secretary Wilson spoke up and asked whether this last statement meant that Dr. Flemming was never going to correct his mistakes of having bought more materials for the stockpiles than were necessary for fighting the kind of war which we might have to fight.

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[2] NSC 5414/1, "Defense Mobilization Planning Assumptions," April 30, 1954, is not printed. (Department of State, S/P–NSC Files: Lot 62 D 1, NSC 5414 Series)

[3] NSC 5501, "Basic National Security Policy," January 6, 1955, is scheduled for publication in volume XIX.

[4] None printed. (Department of State, S/P–NSC Files: Lot 62 D 1, NSC 5414 Series) All are covering memoranda that transmitted to the NSC reports and recommendations of, respectively, the ODM Director, the Planning Board, and the Department of the Treasury.

[5] Not found in Department of State files.

In reply to Secretary Wilson, Dr. Flemming pointed out that at least as far as the President was concerned, the fact that some of the stockpiles contained more materials than might actually be needed for strictly defense purposes could not be regarded as a mistake. He then referred to the well-known views of the President that the possession of such tangible resources by a nation made a contribution to its well-being and economic health, quite apart from the contribution made to its national security.

Dr. Flemming then expressed his strong personal predilection for doing everything humanly possible to cut back on expenditures in the Executive Branch in order that the budget might be balanced. He insisted, however, that one could cut back expenditures just as effectively under the present stockpile policy, which set objectives on the assumption that a war would last five years, as under the proposed new assumption that the war would last only three years. The desired savings could be effected simply by reducing the amounts of materials to be stockpiled. Accordingly, in Dr. Flemming's view there was no fiscal issue before the Council, at least as far as stockpile objectives and expenditures for the Fiscal Years 1956 and 1957 were concerned. Moreover, what really worried Dr. Flemming were the severe domestic political implications of changing the objectives of the stockpiles from what would be necessary to fight a 5-year war to what would be necessary to fight a 3-year war. Dr. Flemming asked whether savings would actually result from such a change sufficient to offset the domestic and foreign repercussions. Moreover, did not such a change run counter to the President's repeated views as to the value to the United States of having a store of raw materials at hand? Lastly, said Dr. Flemming, the President had just requested that a study be made as to the feasibility of bartering surplus agricultural products in return for strategic materials from the Soviet Bloc countries. This proposed policy was presently to be discussed by the Cabinet, and would obviously affect the problem which the National Security Council had before it this morning.

Secretary McKay asked if he might now be excused, in order to make a speech. Before leaving, however, he wished to state his complete agreement with the position taken by Dr. Flemming. Stockpile matters were riding along now in pretty good shape. Rather than make a notable change which would arouse the domestic mining people, he much preferred Dr. Flemming's proposal simply to cut down on the purchase of certain minerals and metals. As Secretary McKay left, he indicated that Assistant Secretary of the

Interior Felix Wormser was extremely well qualified to represent his views.

Acting Secretary of State Hoover inquired about certain of the facts and figures which Dr. Flemming had outlined in his opening statement. As far as Secretary Hoover could see, these figures were based on a technical analysis of stockpile-levels estimated on the basis of a 3-year war or a 5-year war, and did not take into consideration the foreign policy aspects of the stockpile problem. Dr. Flemming indicated that the views of the Department of State on the latter subject had been taken into consideration, but that the policy of stimulating production of certain scarce items (in accordance with the Defense Production Act) had not been taken into consideration.

Secretary Wilson said that the assumption that a future war would last five years had originated in 1944 prior to the explosion of the first atomic bomb. He went on to point out that the military requirements under the assumption of a 5-year war were unilateral service requirements which had never been screened by the Department of Defense and were inflated "to beat the band". The whole problem, therefore, needed thorough reconsideration. At the present time the Air Force was talking in terms of a 60-day war, while the Army based its calculations on a 5-year war. There was a terrible lot of money tied up in this inherited assumption, and the assumption should be studied and changed. Secretary Wilson believed that in its present deliberations the National Security Council should in the first instance consider the stockpile problem on a strictly non-political basis, getting its facts straight first. At an appropriate later time in the discussion the domestic political implications of a change should be cranked in. Secretary Wilson also believed that the Council should realize clearly that if the United States ever got into a nuclear war there would be no business as usual. The U.S. civilian economy simply would not be able to absorb and use the vast quantities of materials stored in the stockpiles.

In replying to Secretary Wilson, Dr. Flemming stated that he too was not very happy about the requirements set by the military for fighting a future war. Nevertheless, he felt impelled to point out that in December 1953, for the first time in the history of mobilization planning, the Department of Defense had given the Office of Defense Mobilization firm requirements figures, even though these were unilateral service figures. Since that date the Joint Chiefs of Staff had developed the Joint Mid-Range War Plan, and this could provide the basis for putting requirements on a sounder basis. Unhappy as he was, therefore, about the requirements, the ODM was obliged to take whatever estimates on the subject were provided to the ODM. Moreover, he added his doubt that the National

Security Council could ignore the domestic political aspects of the stockpiling problem.

Secretary Humphrey then stated that in his view this problem was not nearly as complicated as it had been made to sound by the discussion up to this point. The Council should not concern itself about placing contracts with the objective of stimulating the production of scarce items under the Defense Production Act. This was a separate problem and not in the stockpile picture. Nor was the Council talking about the exchange of agricultural surpluses for strategic materials except in the rare cases involving the transfer of cash from the Department of Agriculture to the Office of Defense Mobilization. The Department of Agriculture can go ahead and complete all the transactions it wants of this sort. In essence, therefore, all the Council was concerned with was whether the stockpile should contain sufficient materials on hand to fight a 3-year war or to fight a 5-year war. Secretary Humphrey emphasized that he could see no reason whatever for the assumption that a future war would last five years. To judge from the report of General George's Net Evaluation Subcommittee,[6] a likely period for the duration of a general war between the Soviet Union and the United States was sixty days. Either the United States is going to have a Maginot Line or else it is going to fight an atomic war. It cannot operate under both assumptions. Accordingly, in Secretary Humphrey's opinion, we must stop buying materials for the stockpiles in excess of the estimated requirements for a 3-year war. He added that he was particularly anxious to stop the further acquisition of materials for the long-term stockpile in excess of the materials estimated to be required for a 3-year war. He did, however, state his emphatic agreement with the position taken by Dr. Flemming, that we must never let any materials out of the stockpiles and onto the market. If such a practice were permitted, the Executive Branch could control our free economy.

Secretary Wilson said he was inclined to take issue with Secretary Humphrey's last remark. In certain circumstances it might be desirable for the Government to sell materials out of its stockpiles. However, Secretary Humphrey insisted that at the present time there are no excess materials in any of the stockpiles which could be sold. On the other hand, if we keep on buying for the stockpiles, they would soon be in excess of their objectives, and it was for this reason that he was so strongly opposed to further acquisition for the stockpiles. With respect to contracts now in force, the policy proposes that where the stockpiles have achieved their objectives such contracts may be cancelled if three conditions are met: (1) that the cancellations can be effected at only nominal expense to the Government; (2) that the cancellations will have no detrimental effect on our foreign policy; and (3) that the cancellations can be made without detrimental effect on the U.S. mobilization base.

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[6] Not printed.

Secretary Humphrey then proceeded to read to the National Security Council his proposed revision of paragraph 4 of NSC 5414/1, as follows:

> "No additional strategic and critical materials in excess of three-year objectives should be purchased for the stockpile except to complete existing contracts which cannot be cancelled at relatively nominal cost, and without detrimentally affecting either the domestic mobilization base or U.S. foreign relations."

Secretary Humphrey concluded with the statement that if we limited ourselves to the above policy we would begin to put a stopper on something that is about to run wild. There was, in fact, no excuse for any purchasing over and above that estimated on the basis of a 3-year war.

Secretary Wilson suggested that the proposed revision by the Secretary of the Treasury might be more acceptable if the words "at this time" were inserted after the word "purchased".

Secretary Humphrey said that he was opposed to Secretary Wilson's suggestion. Moreover, he expressed the view that this meeting of the National Security Council ought not to try to make a final decision. Instead, its deliberations should be submitted to the President for decision. Secretary Wilson added his own view that the President was completely wrong in his theory that a nation could never go wrong by accumulating large stores of raw materials. Furthermore, continued Secretary Humphrey, the present period constituted a very good time to make the shift from the 5-year to the 3-year basis for computing stockpile objectives. At the present time there was virtually no pressure at all by industry to induce the Government to make purchases for the stockpile. On the other hand, such pressure was sure to come at some later date. Accordingly, he would like to see this door closed before we get ourselves in a position where the Government is subsidizing industry through the use of the stockpile.

Dr. Flemming observed that as far as the long-term stockpile policy was concerned, the President had issued to him a very firm directive. Changing the objectives from a 5-year to a 3-year basis would have very little effect from the point of view of this directive. What the President had told Dr. Flemming in the directive was to compute the long-term stockpile objectives on the assumption that all foreign sources of supply, outside of Canada, Mexico, and the Caribbean countries, could not be counted upon in the event of war.

It was this assumption, rather than any assumption as to the length of a future war, that accounted for the expenditures rate and acquisition of materials for the long-term stockpile.

Secretary Humphrey requested Dr. Flemming to state explicitly just what materials in the long-term stockpile were at the present time in insufficient quantity to permit the country to fight a 5-year[7] war. Secretary Humphrey doubted if there were many such items, and insisted that the long-term stockpile be operated on the same 3-year basis as the minimum security stockpile. In point of fact, he said, this is the whole issue now before the National Security Council.

Dr. Flemming replied that at least he could say that the National Security Council would encounter no particular difficulty in formulating a purchasing program for the stockpiles during the Fiscal Years 1956 and 1957, except perhaps in relation to the problem of stimulating production under the Defense Production Act.

Secretary Humphrey agreed with Dr. Flemming, and then said that he would like to see us start with the assumption that all resources would be denied the United States except from North America and the Caribbean countries, and then proceed to see what contracts for materials for the long-term stockpile could be cancelled because the objectives for these materials had been achieved on the basis of a 3-year war. In short, he wished to see precisely what materials were lacking for the prosecution of a 3-year war.

The Vice President commented that if the change from a 5-year to a 3-year basis for computing stockpile objectives were made with a lot of fanfare, the Council could be sure that this course of action would cause severe domestic political repercussions. He did agree, however, with Secretary Humphrey that it would be a highly useful exercise to get down to specifics and to make a determination of what precisely would be involved if we made a change from the 5-year to the 3-year basis. Only as a result of knowledge of specifics would we be able to estimate the effects, foreign and domestic. The Vice President added that he thought there might be an advantage if the Council, instead of deciding to shift from the 5-year to the 3-year basis, should decide on a policy which stated that we would work gradually toward the 3-year basis.

Secretary Wilson said that as far as the whole problem was concerned, he would simply rather use some of the money devoted to stockpiling to disperse and make more secure our SAC bases. The Vice President then called on Admiral Radford.

Admiral Radford noted that the problem of stockpile objectives went back at least as far as 1944. As late as July 1954 the Joint

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[7] A marginal notation on the source text at this point reads "?3".

Chiefs of Staff had reiterated their position that the national stockpile should be sufficiently large to cover four years of general war. They had offered no views at this time on the current policy problem because of their view that the stockpile problem was a good deal larger than the specific issue of the probable duration of a future war. Nevertheless, the Joint Chiefs of Staff had asked him to make clear to the Council that as far as they were concerned, mobilization planning was not currently based on any assumption whatever as to the length of a future war. The Joint Chiefs of Staff did not know what an atomic war would be like, although they felt that if we had reserves for six months the country would be reasonably safe.

Admiral Radford then said that there was another very important issue that was causing a great deal of trouble for the Joint Chiefs of Staff and the Pentagon generally—namely, that our national policy objectives in the event of general war had not been clearly stated. In particular, the current paper on this subject fuzzed up the question of whether or not the United States would use atomic weapons in a future general war.[8] It was essential that this issue be faced and resolved. Secretary Humphrey interrupted to express the heartiest agreement with Admiral Radford, who went on to state that the Joint Chiefs of Staff were inclined to feel that computation of stockpile objectives on the basis of three years of general war would probably be ample, particularly if we cranked in an estimate of bomb damage. Admiral Radford concluded his report on the views of the Joint Chiefs by stating their feeling that the most important effect of any action taken to change the basis for the national stockpile policy would be the effect of such a change on the allies of the United States.

Secretary Humphrey asked Admiral Radford what the Chiefs meant, and Admiral Radford explained that the political and economic problems which would be raised for our allies if we suddenly curtailed purchases of raw materials from them for the stockpile, would inevitably have repercussions on the U.S. military situation vis-à-vis our allies. Secretary Humphrey said that he thought that the language of the proposed change covered this point, since no existing contracts were to be cancelled if such cancellation detrimentally affected U.S. foreign relations.

Admiral Radford said that in any case he would say that if considerable savings could be made as a result of a shift from a 5- to a 3-year basis for the stockpiles, such savings would be enormously helpful in terms of the over-all U.S. military program, which was bound to cost more and more money in the future.

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[8] Reference is to NSC 5501, January 6, 1955, scheduled for publication in volume XIX.

The Director of the Budget stated that the problem of financing the stockpile policy for the Fiscal Years 1956 and 1957 could be handled as a practical matter without any difficulty under either the 5-year or the 3-year assumption. On the other hand, for the years beyond FY 1957 the 3-year assumption would be much more desirable. It was in these future years, and not the present years, that considerable savings would be realized if we shifted from the basis of a 5-year war to a 3-year war.

Dr. Flemming commented that as far as he could see, Mr. Hughes' remarks amounted to inquiring why we should stick out our necks at this time by coming to a formal public decision to shift from the 5-year to the 3-year basis, when the amount of saving we would realize over the next couple of years was going to be so very small. Instead of changing the assumption from five years to three years, Dr. Flemming believed that the proper procedure was to decide the amounts of materials we wished to stockpile on a strictly case-by-case basis.

Secretary Humphrey explained that he was opposed to this ad hoc treatment. All it meant was that we were passing the buck to another fellow who would be in a much tougher position than Dr. Flemming was now to make the decision. What we wanted to do, said Secretary Humphrey, was to stop adding anything more to the long-term stockpile on the basis of the assumption that war would last five years. For the most part, the objectives of the long-term stockpile had been realized.

Secretary Hoover said that he wished to make two points for the record. In many places around the world, purchases of raw materials for the stockpile were made with the sole objective of bolstering the defense of the United States. It was for this reason, for example, that we were purchasing Turkish chrome. The second point, continued Secretary Hoover, was that the Secretary of State was inclined to believe that what the United States faced in the future was the possibility of peripheral limited wars rather than a general war involving an attack on the continental United States. If the Secretary of State were correct, and we faced a number of peripheral wars in the future, the drain on our resources would be very great. This provided strong justification for the extensive stockpiling of raw materials.

After further discussion, the Vice President said that while he was certainly no authority on the stockpiling problem, it seemed to him that you could make very good arguments in favor of the proposed change from the 5- to the 3-year basis, or for reaffirming our present policy. On the other hand, the resources of the United

States were not unlimited, and we must select and choose the objectives which we believed to be most important for the defense of the United States.

Dr. Flemming again argued for the wisdom of a case-by-case approach to the various materials in the stockpile, rather than a blanket change from the 5-year to the 3-year period for estimating stockpile objectives. Secretary Humphrey likewise reaffirmed his opposition to this proposal, although he now said that he was willing to agree to the insertion of the language proposed by Secretary Wilson, viz., the phrase "for the time being".

The Vice President wondered whether it would be a fair approach for the Council to propose a policy which would affirm the 5-year basis for the computing of stockpile objectives where this longer basis was required by reason of foreign policy and mobilization base requirements. Otherwise the stockpile objectives would be calculated on the assumption of three years of general war.

After further discussion, the Council requested, and Dr. Flemming undertook over the next few weeks to make, a report on the effects of using an assumed period of three years, as compared with five years, for both the minimum and the long-term stockpiles. Secretary Humphrey commented that if such a study were made the problem would solve itself.

The National Security Council: [9]

a. Discussed the subject in the light of the reference memoranda.

b. Requested the Director, Office of Defense Mobilization, to study and report upon the effects, both in the immediate future and subsequent years, of using an assumed period of three years, as compared with five years, for (1) the minimum stockpile and (2) the long-term stockpile; assuming that existing contracts will be completed which cannot be cancelled at relatively nominal cost, and that actions arising from the use of the new base period should avoid detrimental effects upon either the domestic mobilization base or U.S. foreign relations. [10]

c. Noted that the Office of Defense Mobilization would meanwhile prepare its budget estimates relating to stockpiling programs for Fiscal Years 1956 and 1957 so that programs based on the existing policy in paragraph 4 of NSC 5414/1 will result in budget estimates which will not vary significantly in total from estimates using an assumed period of three years, as opposed to five years, for such programs.

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[9] Paragraphs a–c that follow constitute NSC Action No. 1471. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1955)

[10] This report was sent to the National Security Council by James S. Lay under cover of a memorandum of January 6, 1956, and was presented in summary form during the Council's meeting on January 12, 1956; see Document 212. A copy of the ODM report and Lay's memorandum of January 6 are in Department of State, S/P–NSC Files: Lot 62 D 1, NSC 5414 Series.

Note: The actions in b and c above subsequently transmitted to the Director, ODM.

[Here follows discussion of the remaining agenda items.]

S. Everett Gleason

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210. Minutes of a Cabinet Meeting, Laurel Cottage, Camp David, Maryland, November 22, 1955, 9:15–11:10 a.m.[1]

[Here follow a list of participants and discussion of unrelated subjects. The President presided at the meeting.]

Fuel Oil Imports—Dr. Flemming reported on developments with regard to the earlier Cabinet decision to attempt to solve this problem through voluntary action by the oil companies. After some conflicting developments, he stated, it now appeared that the companies would police this satisfactorily in order to avoid the evil of import quotas. Mr. Humphrey emphasized the need for the industry policing itself rather than any possible action by the Federal Government in regard to a single company which might get out of line. Mr. Hoover was very encouraged by the progress and indicated that industry handling of the problem would be satisfactory. Mr. Flemming made a point of satisfaction expressed by New England interests and the railroad industry with regard to the handling of the matter.

[Here follows discussion of unrelated subjects.]

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[1] Source: Eisenhower Library, Whitman File, Cabinet Meetings. Confidential. Drafted by Minnich.

211. Memorandum From the Under Secretary of Agriculture (Morse) to the Council on Foreign Economic Policy[1]

Washington, November 17, 1955.

SUBJECT

International Sugar Agreement

Attached is a statement on the International Sugar Agreement prepared jointly by the Departments of State and Agriculture. It is expected that the recommendations will have the full support of the Department of State as soon as there is time for the necessary consideration within that Department.[2] In view of the urgency, however, we wish to present the matter at this time.

The International Sugar Agreement runs for five years with provision for review and amendment during 1956, the third year of the Agreement. Naturally, the individual member nations will be free to accept or reject any amended Agreement. The proposed amendments may be considered at a meeting called by either the International Sugar Council or the United Nations.

Preparations for studying the effects of the Agreement and procedures for the 1956 conference will be discussed at the meeting of the Council which will begin in London November 28, 1955. It will be necessary for the United States Delegation to participate in these arrangements and in the 1956 conference. The recommendations in the attached memorandum make it clear that the United States Government will be free to consider and accept or reject the amended Agreement.

For further information there are attached copies of President Eisenhower's report[3] to the Senate recommending the adoption of the present International Sugar Agreement.

True D. Morse[4]

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[1] Source: Department of State, E–CFEP Files: Lot 61 D 282A, U.S. Participation in International Sugar Agreement—CFEP 534. Official Use Only. Circulated under cover of a memorandum by Cullen, November 19.

[2] In a memorandum of November 17 to Hoover, Herbert V. Prochnow recommended that the Under Secretary support the paper submitted by the Department of Agriculture on the basis that the continued interest of the United States would be "helpful in our relations with the Latin American countries" and could "make a contribution to the solution of a problem which directly affects their national welfare." (*Ibid.*) Hoover approved the paper.

[3] Not printed.

[4] Printed from a copy that bears this typed signature.

[Attachment]

INTERNATIONAL SUGAR AGREEMENT

Problem

The International Sugar Council will hold its next meeting on November 28. Preparatory meetings of certain committees of the Council will begin on November 23. The Council will establish a procedure to review the workings of the International Sugar Agreement and to consider amendments to the Agreement. As a result of this examination governments will undoubtedly be asked to renegotiate the Agreement in 1956. Although under the terms of the Agreement, governments are free to withdraw at the close of 1956 without participating in the negotiations, it is presumed they will participate and then decide whether to accept or reject the revised agreement. Although the United States will not be required to commit itself in any way at the November meeting, the extent to which we express our views on procedure for prompt renegotiation of the Agreement will be taken by other governments as indicative of our interest in continued participation. The delegation to the meeting should therefore be instructed as to whether this government is willing to participate in the renegotiations next year and then to decide whether or not to adhere to the revised terms of the Agreement.

Discussion

Early in 1953 the Departments of Agriculture and State were requested by the domestic sugar industry to use their best efforts to secure a new international sugar agreement. Cuba and the Dominican Republic considered that an international sugar agreement could be of great value to their sugar economies, and they requested the support of the United States. At that time the International Sugar Agreement of 1937 was inoperative, and a negotiating conference called by the United Nations was scheduled for July 1953. The domestic industry and the foreign producers in the Caribbean were assured of the Administration's support, and the United States subsequently played an active role in the negotiations which resulted in the International Sugar Agreement of 1953. The Agreement was approved by the Senate by a vote of 60–16 and ratified by the President on April 29, 1954. Twenty-three nations, including fifteen exporters and eight importers, are now members of the Agreement.

Although the Agreement was negotiated for a five year period, it is in effect a three year agreement. Its terms provide that it will be open for amendment in the third year, and any participant may withdraw from the Agreement at that time. It is known that a number of countries are desirous of changes in the Agreement and a conference to negotiate substantial amendments will undoubtedly be held in 1956. At the meeting of the Council this month preliminary steps will be taken to arrange for such a conference. It is possible that the Council may decide to dispense with its own review of the workings of the Agreement and ask the United Nations to call a worldwide conference as soon as possible. This would have the additional purpose of attracting countries not now members of the Agreement.

The International Sugar Agreement attempts to stabilize the world sugar market within a specified price range by assigning each exporting country a basic export quota and then adjusting these quotas to the needs of the market whenever the world price falls below or rises above the desired minimum and maximum price. The Sugar Agreement thus differs substantially from the International Wheat Agreement. Whereas the Wheat Agreement is a multilateral contract to buy and sell specified quantities at minimum and maximum prices, the Sugar Agreement contains no such obligations. It looks to balancing supplies with market requirements in order to keep the world market price within a range agreed as fair to both producers and consumers. While exporting countries undertake substantial obligations under the terms of the Agreement, the principal obligation of importing countries such as the United States is to limit imports from non-participating countries from gaining advantages at the expense of participating countries.

During its first two years the International Sugar Agreement has been successful in stabilizing world market prices, but only at or slightly below the minimum level sought by the Agreement. Many factors account for this. It will suffice to say that despite the Agreement world supplies of sugar have continued far in excess of consumption requirements. The Agreement is however still regarded by most participants as a desirable instrument through which countries can work together to avoid chaos in the marketing of a commodity important in world trade. Many countries are dependent on the export of sugar as a principal means of livelihood. The International Sugar Agreement in its exploratory stages has not accomplished all that was hoped for. It has however come to be recognized in the marketplace as a constructive force of substantial authority.

The United States has important interests in the world's great sugar producing and exporting areas in the Caribbean. The security of our considerable trade and investment, our sources of necessary raw materials and our military bases in that area depend upon the maintenance of a reasonable degree of political stability and closely related economic well-being. A sharp depression of prices and mounting world sugar surpluses would cause extreme economic stress and severe political unrest in this area. The United States, therefore, has a significant stake in any international action which would help to eliminate the recurring crisis which would upset this world-wide industry. An important consideration for the United States is the fact that the International Agreement does not change the pattern of our trade in sugar. Our domestic sugar legislation will continue to regulate the volume and source of our imports as it does at the present time. It is the view of our domestic industry that an international sugar agreement is important to their welfare as a means of preventing mounting surplus in the Caribbean and resultant pressure on this market. The case for an international sugar agreement is thus based on both domestic and foreign policy considerations, and the Departments of Agriculture and State cooperated closely to help bring the present Agreement about.

Recommendation

It is recommended that the delegation to the November meeting of the International Sugar Council be authorized to take an active role in the preparation for a negotiating conference next year, and secondly that when such a conference is called the United States should plan to participate and work toward a revised agreement which in the judgment of the departments concerned can make the best contribution to the solution of a problem in international trade which affects the livelihood of many countries important to the United States and which, therefore, involves directly the national interest of the United States.[5]

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[5] At its meeting on November 22, the CFEP agreed that the U.S. Delegation to the meeting of the International Sugar Council should be authorized to take an active role in a pending negotiation conference with a view toward continued U.S. participation in the International Sugar Agreement. The International Sugar Protocol was concluded at London on December 1, 1956, and it entered into force for the United States on September 25, 1957; for text, see 8 UST 1937.

212. Memorandum of Discussion at the 272d Meeting of the National Security Council, Washington, January 12, 1956 [1]

[Here follows a paragraph listing the participants at the meeting.]

1. *Defense Mobilization Planning Assumptions Applicable to Stockpiling* (NSC 5414/1; NSC 5501, par. 55; Memo for NSC from Executive Secretary, subject: "Defense Mobilization Planning Assumptions Applicable to the Stockpiling Program for Strategic and Critical Materials", dated September 27, 1955; Memos for NSC from Executive Secretary, same subject, dated November 2 and 9, 1955, and January 6, 1956; [2] NSC Action No. 1471 [3])

Mr. Anderson briefed the Council on the prior history of its consideration of the reference item (copy of briefing note filed in the minutes [4] of the meeting). In the course of his briefing he explained the split recommendation which had come to the Council from the NSC Planning Board. The majority of the members of the Planning Board recommended that NSC 5414/1, on stockpiling planning assumptions, should be revised to indicate that, with respect to the minimum stockpile of strategic and critical materials, the planning assumption for the achievement of the stockpile objectives should be changed from a period of five years to a period of three years. The so-called long-term stockpile could be computed on a longer but lower priority basis so as to take account of other than the minimum requirements for general war. Contrary to this recommendation of the majority of the Planning Board was the recommendation of the Treasury and Budget members of the Planning Board, who recommended that no additional strategic and critical materials in excess of three-year objectives should be purchased for the stockpile except to complete existing contracts which cannot be cancelled at relatively nominal cost and without detrimentally affecting either the domestic mobilization base or U.S. foreign relations. Mr. Anderson also briefly summarized Dr. Flemming's report to the Council called for by the Council at its previous discussion of this subject and titled "Effects of a Change in the Stockpile Planning Period from Five Years to Three Years" (copy filed in the minutes of the meeting).

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on January 13.

[2] This memorandum transmitted the recommendations of the ODM Director. (Department of State, S/P–NSC Files: Lot 62 D 1, NSC 5414 Series)

[3] See footnote 9, Document 209.

[4] Minutes of this NSC meeting have not been found.

Before Mr. Anderson had completed his briefing of the Council, the President interrupted to state his conviction that there could be no possible objection to keeping the five-year planning assumption on the length of a future general war as a guide for stockpile objectives, provided the materials deemed requisite for a war lasting three years were accorded priority in procurement. The President went on to explain his view that we would make money on this kind of a deal when we were in a position to buy commodities for the stockpile when they were relatively cheap—that is, by having recourse to selective buying for the stockpile. For our policy to state simply that from now on we were going to purchase for the stockpile only on the basis of an assumption of a three-year war[5] was, according to the President, simply "nuts".

In support of the President's position on the preservation of the five-year basis for the stockpiles, the Secretary of State reminded the members of the Council that in the State of the Union message the President had called for an exchange of U.S. agricultural surpluses for non-perishable hard goods. In view of this statement it would be very unfortunate to change the policy on the stockpile in the National Security Council at this time.

Secretary Wilson said that while he was all in favor of measures which would assist in stabilizing markets, this was separate from the problem of stockpiling materials against the possibility of a future war. With respect to the strictly military aspects of the stockpiling program, Secretary Wilson said there were strong arguments against maintaining the five-year basis. Retention of the five-year basis, he pointed out, would certainly involve adverse influences on our military plans, which were all geared to the assumption that a future general war would not last longer than three years. It would be unfortunate if there were one planning assumption with respect to stockpiling for a future war and a quite different assumption with respect to the length of the war for every other phase of our military planning.

The President replied pointedly to Secretary Wilson that the mere fact that we were striving to get sufficient raw materials in the stockpile to see us through a war which might last five years, provided no excuse whatever for fabricating ships and guns on the assumption that a future war would last five years. These were quite different problems and fields of planning. There ensued an exchange of views on this point between the President and Secretary Wilson. In the course of this exchange Dr. Flemming reminded the President that at an earlier discussion of this subject the President had specifically informed Admiral Radford that he was not to use a five-year planning assumption as the basis for JCS formulation of our military plans for carrying on a war.

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[5] On the source text, "was" is underlined and a marginal notation indicates the correction to be "war".

In concluding this exchange of views, the President asked the National Security Council to imagine a situation in which the United States had actually won a thermonuclear war. With so much destruction heaped on the country and with our ports in ruins, it might well be a matter of three or four years before the United States was once again in a position to import the raw materials of which it had need from foreign sources. Indeed, having these raw materials in the stockpile constituted a kind of insurance for the United States, and it was particularly advantageous to obtain these needed raw materials at a time such as the present, when the country was loaded down with surplus perishable goods. He again insisted that stockpile assumptions as to the length of a general war could readily be separated from the assumptions which were to guide our military planning in the strictest sense of that word. Finally, said the President, he could not forbear to state that those who argued that a future thermonuclear war would be won or lost in a period of thirty days were crazy. A modern war is not going to be won simply by destroying the enemy's cities.

Secretary Humphrey then asked the President if he could be allowed a certain period of time to state his view. The President agreed, and Secretary Humphrey began to state his view. He said he believed that there was a lot of confusion surrounding the Council's discussion of the stockpile policies. We dealt too much in broad generalities. Instead, we should actually look at the facts and figures. He was here referring, he said, to figures on the stockpile which had been supplied to him last evening by Dr. Flemming (copy filed in the minutes of the meeting). In looking at these figures the first distinction to be made was between items acquired for the stockpile which are produced in this country and on this continent, and items which are produced abroad. As for the latter materials, there was no particular difficulty involved in acquiring them in exchange for our surplus perishable materials. Items thus acquired from abroad would not overhang our own markets and have an adverse effect on the domestic economy, but this was only a small part of the problem. In the second place, it would be desirable now to see what these figures said about the status of the minimum stockpile of critical and strategic materials. Of the items in this stockpile there are only four or five which were actually produced in this country or on this continent, and in each case only relatively small amounts of such materials remained to be acquired to complete stockpile objectives. Accordingly, the minimum stockpile likewise presented no serious problem.

Turning to the long-term stockpile, Secretary Humphrey pointed out that if it were calculated on the basis of the requirements for a three-year war, there were very few items which would have to be imported from overseas. Moreover, on the same three-year assumption, there would not be very much which would have to be bought for the long-term stockpile in this country.

Secretary Humphrey then warned the Council of the dangers involved in buying too much for the stockpiles as a means of easing the burden of our agricultural surplus and in order to assist agriculture in this country. It might well turn out that, by use of the stockpile to assist our agriculture, we would end up by ruining our mineral industry. If you gave an administration an unwarranted right to acquire indefinite amounts of minerals and other items for the stockpile, you were in effect handing such an administration the equivalent of a despotic power over the United States economy. Naturally such powers would not be abused by the present Administration, but a different administration might seek to take advantage of these opportunities.

When all was said and done, concluded Secretary Humphrey, it was the long-term stockpile, whose objectives were calculated on the assumption that a future war would last five years, that offered the Council the only problem of real significance. Of the items in this stockpile, about half were or would be acquired in this country and half from foreign sources. Moreover, copper accounted for half the total figure in the long-term stockpile. This large domestic industry should be protected from the unfortunate effects of government interference or subsidy by use of the stockpile. The remaining items in this stockpile did not present serious problems.

With respect to Secretary Humphrey's warning of the dangers to which the U.S. copper industry might be exposed if it were in effect subsidized by the Government through large purchases for the stockpile, the President pointed out that the zinc and lead industries in the United States had been helped in a period of dire distress by Government purchases of zinc and lead for the stockpile. In the course of a lively exchange between the President and Secretary Humphrey on this issue, Secretary Dulles broke in to point out that had we not recently purchased considerable amounts of zinc and lead from Mexico, our relations with that country might have deteriorated almost to a breaking point. Secretary Dulles invited Secretary Humphrey's attention to the importance of the foreign policy aspect of our purchases for the stockpile.

In reply to Secretary Dulles, Secretary Humphrey said that if we were proposing to subsidize industries for foreign policy purposes or otherwise to help our foreign friends, we owed it to the Congress and the people to tell them the truth about the matter and not to cover up by saying that we are purchasing foreign materials for a stockpile as insurance against a future war. If the Council was really concerned only with acquiring stockpile items as insurance against a future war, there was very little indeed for the Council to talk about. What was left to be acquired amounted to a very small figure.

The President recollected various occasions in the past when he had been troubled by serious shortages of strategic and other materials. He said he believed that Secretary Humphrey's views on the value of stockpiled materials was rather shortsighted. He insisted, as he often had in previous discussions, on the real value to the country of these stockpiled materials.

Governor Stassen said that the issues in the argument seemed to him to boil down to the following. Was it or was it not in the U.S. national interest to have on hand a five-year supply of materials in the stockpile? If the war proved to be short, such stockpiled items would prove very useful in rebuilding and rehabilitation after the war. If, on the contrary, the war proved to be long, it was obviously advantageous to have a large stockpile of necessary materials. Accordingly, on balance, Governor Stassen answered his own question in the affirmative as to the desirability of a five-year supply in the stockpiles.

Secretary Humphrey said that he had one last point to make. There were rumors going around of an intention to expand the size of the long-term stockpile by as much as fifty percent in order to help relieve the United States of the burden of its accumulated agricultural surpluses. Secretary Humphrey said that he was violently opposed to such a proposal, and that if it were carried out it would put the country in an "awful fix".

At this point Dr. Flemming said that he would like an opportunity to place certain facts bearing on the problem before the National Security Council. After explaining the figures which he had sent to Secretary Humphrey the previous evening, Dr. Flemming stated that with regard to the question of insulating the stockpiles from the market, he felt that Congress had tied the stockpiles up about as tight as it was humanly possible to do. No sales could be made of materials from the stockpile unless the President of the United States specifically certified that such sales were to be made in the interests of the national defense. Dr. Flemming said that he and Secretary Humphrey were in complete agreement on the wisdom of this Congressional directive.

Secretary Humphrey endorsed the feelings of Congress, but said that he had a vivid recollection of the Blue Eagle days. What would

President Roosevelt and General "Iron Pants" Johnson[6] have cared about what Congress directed if they had decided that it would be advantageous to dump materials from the stockpile onto the market? We would do well to remember that in a year and a half's time we may well have the New Dealers back in control.

Secretary Wilson said that our difficulties with the stockpile problem were that there were at least three different objectives in our minds with regard to the stockpile. Some wanted it primarily for war insurance purposes, others for foreign policy purposes, and still others for internal economic purposes. All of these objectives were sound, but they were intermingled and confused.

The President said that he was entirely convinced that the biggest trouble which faced the Council when it discussed the problem of stockpiles, derived from the fact that none of the members of the Council had withdrawn into a quiet room and contemplated for a period of time the real nature of a future thermonuclear war. We were simply unequal to imagining the chaos and destruction which such a war would entail. Moreover, the notion that such a war would last for only thirty to sixty days was just about as specious as the idea of a race between himself and Secretary Humphrey to the moon. After the first exchange of thermonuclear blows between the United States and the Soviet Union in any future war, the United States would have to pick itself up from the floor and try to win through to a successful end. In support of this point of view the President cited various wiseacres in the past who had proved to their own complete satisfaction that wars could either not be begun or that, if begun, would last only a short time, because the contestants could not afford to fight long wars. In point of fact, however, this had not been the case in the first and second World Wars, and would certainly not be the case in any future thermonuclear war. The President said he might be nuts in his views on the value of the stockpile, but the recollection was still vivid in his mind of the desperate efforts to get necessary tin, manganese and the like during the dark periods of World War II.

At this point Secretary Wilson said that he was going to take his back hair down and explain to the Council his real reasons for opposing a continuation of the five-year basis for calculating the stockpiles. It was simply that he did not wish to put $500 million into procurement for the stockpile if such a sum had to come out of funds available to him for manufacturing weapons designed to prevent this damned war. Indeed, he continued, General Twining and he were in a few minutes going down to the Hill to take a beating from the committees of Congress with respect to alleged inadequacy of the Defense Department's weapons procurement policies.

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[6] General Hugh Johnson, head of the National Recovery Administration, 1933–1935.

Replying to this argument, the President observed that every member of Congress on the Hill would readily find arguments to throw at the Secretary of Defense if such a Congressman proved to be a partisan in his attitude toward our defense program. In point of fact, said the President, we are now spending roughly $35 billion a year on the defense of the United States, and I say that in the long run if we spend much more than this we will actually reduce rather than enhance our chances of preventing a war. We will do so because we will have aroused genuine doubt, both among our own citizens and among our allies, as to the essential stability of the United States economy.

Turning to Dr. Flemming, the President stated that despite everything said, he would like to have the problem of copper purchasing for the stockpile looked at carefully again. Copper was an industry that produces at home. On the other hand, if we do not buy copper from Chile, Chilean copper would be sold to the Soviet Union. For the time being, at any rate, we should continue to take Chilean copper against the chance of a long war.

Secretary Humphrey wondered at this point whether the Council should not take one more look at the problem of stockpiling, from the point of view of examining all the stockpile items which are, on the one hand, produced in this country and on this continent, and, on the other, are acquired from foreign sources. After such an item-by-item look, the Council would be in a position to decide how to resolve the differences of view. Secretary Humphrey was confident that a way existed to work the problem out which will secure all that we needed against the possibility of a future war without at the same time upsetting our whole national economy.

Dr. Flemming said that he would be very glad to undertake to provide the President with a special report on copper as a substantial domestic industry. He noted, however, that no copper had been bought for the stockpiles for some little time. Turning to Secretary Humphrey in particular, Dr. Flemming reminded him that the setting of the requirements for the stockpile was done by an interagency group. It was essential that the heads of each agency give clear instructions to their representatives on this group if the group were expected to carry out its responsibility.

Secretary Humphrey again repeated his proposal for a specific study of each item in the stockpile, and again assured the Council that if this were done the Council would quickly be able to reach agreement. The President in turn again stated his extreme annoyance with those who entertained the opinion that a future thermonuclear war would last only thirty days and that, accordingly, it was foolish to have any significant stockpile. He likewise repeated his conviction of the desirability of purchasing for the stockpile during periods when the items desired could be procured cheaply. He added his conviction that, to date at least, the Administration had pursued a sound policy course with respect to the stockpile, although he said he was willing to go along with Secretary Humphrey's recommendation for a case-by-case study of each item in the stockpiles.

Secretary Wilson in turn once more raised his objection to the existence of different assumptions for military planning and stockpile planning for the contingency of a future war. With some warmth the President replied to Secretary Wilson that the only thing we could really know about the nature of a future war was that it would be completely different from any wars fought in the past. About the only sensible plan, accordingly, which could be carried out in the Pentagon would be plans to survive the initial round of thermonuclear blows. For the period which followed this first exchange, there was virtually nothing that could be realistically planned in advance.

Dr. Flemming then inquired from the President whether the best solution of the stockpile problem would not be to leave it that we stay on the five-year-war planning assumption as the basis for procuring items in the stockpile, but actually instruct the Defense Mobilization Board, an interagency committee, to study the desirable rate of procurement of each item in the stockpile. Secretary Humphrey opposed Dr. Flemming's proposal, and called for a broader approach and a postponement of decision. Dr. Flemming, however, pointed out that this problem had already been kicked around for many months, and that some solution must promptly be reached. He accordingly repeated his proposal and expressed the opinion that it was quite unnecessary to cause a rumpus on Capitol Hill by formally changing the planning assumptions for setting the stockpile objectives from a five-year to a three-year basis. We could achieve the objectives of such a change equally well by slowing down the rate of purchase of materials for the stockpile.

In reply, the President said that while he wanted to establish clearly a system of priorities for acquisition of stockpile materials, he did not wish to drop the present five-year basis. Mr. Anderson pointed out to the President that the view he expressed was almost identical with the majority proposal made by the Planning Board, together with the amendment to this proposal offered by the Department of the Interior. In response to this, the President said he still wished to retain the five-year planning assumption.

Dr. Flemming said that as he understood the President's desire, it was that the stockpile policy continue to use the five-year-war assumption in setting the ultimate objectives of stockpile procurement, but that the rate of procurement of items for the stockpile should depend on the circumstances.

The President added that we should stick to the letter of the original law setting up the stockpiles. If we did this, we could not go far wrong and we would insulate the stockpiles from the market. Beyond this, there was really not very much that the present Administration could do to meet the Secretary of the Treasury's worries about misuse of the stockpile by some future President and Congress which was New Deal.[7] Secretary Humphrey replied that at least we did not have to provide such a future President and Congress with the tools by which they could corrupt the national economy (laughter).

The National Security Council:[8]

a. Discussed the recommendations on the subject circulated by the reference memoranda of November 2 and 9, 1955, in the light of the report prepared by the Director, Office of Defense Mobilization, pursuant to NSC Action No. 1471–b, circulated by the reference memorandum of January 6, 1956.

b. Adopted the following revision of paragraph 4 of NSC 5414/1, subject to a review of purchase schedules for each material by the Defense Mobilization Board, with a report from that Board to the National Security Council in the case of materials that have a major impact on national security:

> "4. General war may last for an extended period up to four years. Although the first few months of conflict may be crucial in determining its outcome, planning for its duration should be based upon all assumptions herein stated, with particular emphasis on paragraph 18. For planning the stockpile objectives for strategic and critical materials, a period of five years may be used. However, only the stockpile objectives based upon the

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[7] In a diary entry of January 12, Eisenhower wrote:

"I was amazed at the National Security Council meeting to find some of our people rather bitterly opposed to the plan for continuing build-up in our raw materials reserve. Their fear is inspired by a simple thing—that at some future date the government might, through unwise release of these materials on the domestic market, do untold damage to the American producers of these same items. This to me is specious reasoning. If we have a government, and a Congress, that would be guilty of this kind of action, then there would be little hope for any kind of business in America. Yet the Congress would have to be a party to such action, because the law specifically provides that items from our mobilization stock pile can be used only for emergency purposes.

"On the other hand, our present stock pile program does seem to me to include a few projects that are unwarranted. One example is titanium; another is the *amount* of copper we are planning to obtain. I think both of these could be cut back." (Eisenhower Library, Whitman File, Eisenhower Diaries)

[8] Paragraphs a–b that follow constitute NSC Action No. 1498. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1956)

planning period of three years currently used in Military Mobilization Planning should be completed on a priority basis, the remainder of the five-year objectives to be achieved on a longer and lower priority basis. (This language modifies paragraph 55–b of NSC 5501 and should be taken into account in the current revision of that paper.)"

Note: The action in b above, as approved by the President, subsequently transmitted to all holders of NSC 5414/1 and referred to the Director, Office of Defense Mobilization, for appropriate implementation.[9]

[Here follows discussion of the remaining agenda items.]

S. Everett Gleason

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[9] A copy of NSC 5501 incorporating the language modifying paragraph 55–b is in Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5501 Series. NSC 5501 is scheduled for publication in volume XIX.

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213. Report Prepared in the Office of Defense Mobilization[1]

Washington, February 26, 1956.

STOCKPILE POLICIES AND PROGRAMS OF THE U.S. GOVERNMENT

(For The Information of The Council On Foreign Economic Policy)

Introduction

This document was originally reviewed by the members of the Defense Mobilization Board at Meeting No. 80 on August 10, 1955. The paper was approved with the exception of the Section on the length of the emergency period upon which stockpiling calculations should be based. That question was subsequently settled by the National Security Council in January of 1956.[2] This document has now been revised, where appropriate, to reflect the current situation.

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[1] Source: Department of State, E–CFEP Files: Lot 61 D 282A, U.S. Stockpile Program—CFEP 526. Secret. The source text bears no drafting information. It was sent to members of the Council on Foreign Economic Policy under cover of a memorandum by Cullen dated March 7, on the subject of CFEP 526.

[2] Reference is to the NSC meeting of January 12; see *supra*.

Part I. The Defense Stockpile Under the Strategic and Critical Materials Stock Piling Act

A. Administration of the Present Stockpile Program

1. Authority for the Stockpile

a. The need for a stockpile of strategic materials required for defense purposes was apparent in World War I; however, it was not until 1939 that the Congress passed a specific Act authorizing stockpiling of strategic and critical materials for national defense purposes. Following World War II, during which strategic materials shortages created many difficult wartime production problems, the Congress reviewed the stockpile legislation, and, in 1946, passed "The Strategic and Critical Materials Stock Piling Act," (PL 520, 79th Congress) approved July 23, 1946.[3] The preamble states:

> That the natural resources of the United States in certain strategic and critical materials being deficient or insufficiently developed to supply the industrial, military, and naval needs of the country for common defense, it is the policy of the Congress and the purpose and intent of this Act to provide for the acquisition and retention of stocks of these materials and to encourage the conservation and development of sources of these materials within the United States, and thereby decrease and prevent wherever possible a dangerous and costly dependence of the United States upon foreign nations for supplies of these materials in times of national emergency.

The Act is still current but administrative responsibilities were revised by Reorganization Plan No. 3 of 1953 which made ODM responsible for the determination of the materials (including quantities and qualities) to be stockpiled. In the process the Secretaries of Defense, Interior, State, Commerce, Agriculture, Treasury, and others cooperate. Acting under procurement directives from ODM, GSA procures and stores the stockpile materials. The Stock Piling Act makes the Secretary of the Interior and the Secretary of Agriculture responsible for certain research and development activities intended to increase supplies of materials.

2. Mechanism for Interagency Cooperation

To make the best use of all of the information available in the government, including that available through the many Industry Advisory Committees to the different agencies, and to manage the stockpile program so that all responsible and interested agencies are fully informed, several echelons for interagency coordination have been established as follows:

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[3] For text, see 60 Stat. 596.

a. *The Interdepartmental Commodity Committees* bring together the senior commodity specialists of the various agencies of the Federal Government for the purpose of advising the ODM Commodity Specialists. These committees develop the basic supply-requirements data which are used for subsequent calculation of stockpile objectives. The following commodity committees are currently in existence:

Interdepartmental Chemicals & Rubber Advisory Committee
Interdepartmental Fibers Advisory Committee
Interdepartmental Forest Products Advisory Committee
Interdepartmental Iron, Steel & FerroAlloys Advisory Committee
Interdepartmental Light Metals Advisory Committee
Interdepartmental Non-Ferrous Metals Advisory Committee
Interdepartmental Non-Metallic Minerals Advisory Committee

b. *The Interdepartmental Materials Advisory Committee* is chaired by the Assistant ODM Director in Charge of Materials and composed of representatives (usually at the Assistant Secretary level) of the several agencies concerned. This Committee advises the Assistant ODM Director in Charge of Materials on establishment of stockpile objectives and broad policy problems in the stockpile area.

c. *The Defense Mobilization Board,* composed of heads of the several agencies having mobilization functions, advises the Director of ODM on broad defense policies and programs including stockpiling and major current materials problems such as are presented by aluminum, copper and nickel.

d. *The National Security Council,* reviews defense policies and programs and advises the President on their implications and implementation. The NSC has reviewed the basic assumptions on which stockpiling is based.

e. *The President* has reviewed broad stockpile policies including the long term stockpile policy recommended by the Cabinet Mineral Policy Committee, and the length of war on which stockpile planning should be based.

3. Congressional Review

The Congress of the U.S. has reviewed stockpile policies and programs at frequent occasions through a variety of groups. The Armed Services Committees, the Interior and Insular Affairs Committee, the Appropriations Committees, and the Joint Committee on Defense Production all hold frequent hearings covering various aspects of stockpiling. The Appropriations Committees usually go into considerable detail in regard to the basic policies and proposed expenditures for individual materials. Semiannually a complete secret report is submitted to the Congress covering the status of each material, and an unclassified summary report is likewise issued at the same intervals. The current stockpile program has a long history of bipartisan support and, except for a few minor instances, Congress has not hesitated to appropriate the full amount of money requested.

B. Setting Stockpile Objectives

1. Nature and Type of War, Including Length

It is recognized that there are several different types of wars that could be considered. Stockpiling is intended to meet deficiencies in materials supplies that would exist in a five-year war calling for general mobilization without attack on Continental United States and involving ground, sea, and air forces, and high utilization of the industrial potential of the U.S. Atomic warfare, involving sudden and substantial destruction within the Continental U.S. and consequent serious reduction of industrial capacity to consume materials, could result in lower requirements. On the other hand, the U.S. might be faced with prolonged small or medium wars of the Korean type, in which serious cutbacks of the civilian economy could not be tolerated and increased needs for military matériel would require withdrawal of materials from the national stockpile. Moreover, no allowance has been made in stockpile calculations for the materials needs for reconversion to a normal status after a war or for the rehabilitation of the U.S. in the event of massive destruction.

2. Requirements Estimates

In general, requirements estimates assume maximum feasible conservation without impairing the performance characteristics of essential items. All requirements estimates are screened by the ODM Production Area before being accepted for stockpile calculations.

a. *Military Requirements* are submitted to ODM by the Department of Defense. These requirements are based where possible on conversion of feasible end items schedules which in turn are related to strategic plans. Requirements estimates made by the Army, Navy and Air Force are reviewed by the Assistant Secretary for Supply and Logistics before coming to ODM. Where significant changes occur, either upward or downward, full justification of the change is required particularly when such changes would result in larger stockpile objectives requiring additional procurement.

b. *Atomic Energy Requirements,* for materials used in the atomic energy program, are submitted by the Atomic Energy Commission. It should be noted that the AEC itself is responsible for "source" and "fissionable" materials; accordingly, these are not included in the stockpile under P.L. 520.

c. *Essential Defense Supporting Requirements* are developed normally by the Department of Commerce and, in certain instances, by other Departments having special claimant responsibilities, as for example the Department of Agriculture for agricultural production, and the Department of the Interior for petroleum, coal, and other production. These requirements reflect the materials needed in wartime to keep essential industrial production and services in operation.

d. *Essential Civilian Requirements* are submitted generally as described in "c" above and are intended to provide for "rock-bottom" civilian needs in time of all-out war.

e. *Essential Exports Requirements* for raw materials are included in the stockpile calculations only for those materials where the U.S. normally in peacetime is a major source for that material. An example would be U.S. molybdenum for use of the U.K. steel industry.

f. *Special Provisions for Foreign Requirements*

It should be noted that woven throughout the requirements estimates is some provision for the requirements of our allies in wartime. For example, the military requirements for trucks, planes, ammunition, etc., would include those items intended to be supplied by the U.S. to allied nations in wartime. Where we historically export certain manufactured articles—as for example electrical equipment, or certain raw materials—as for example molybdenum, some provision is made for such essential exports in time of war. In many cases it is difficult to identify precisely the magnitude of these foreign requirements for they may be included only incidentally in base period manufacturing levels used in some requirements calculations.

3. Supply Estimates

Wartime supply estimates are developed by considering historical production records as well as new developments, both positive and negative, known to the technical agencies. For example, firm industrial plans to bring in new mines within the U.S. or abroad would result in increases in future supply estimates, while definite knowledge that certain important mines had been fully depleted and were about to close down would result in decreases in future supply estimates. Supply estimates assume that sources normally functioning in peacetime in the U.S. and in foreign countries will continue in wartime, and supply estimates do not contemplate uneconomic forced-draft post-M-day expansion which would be wasteful in time and resources. To gross supply estimates are applied certain safety factors as follows:

a. The Joint Chiefs of Staff give advice on areas of the world that are expected to be in the hands of the enemy and thus not counted upon, as well as information on other areas of the world expected to be accessible to the U.S. in wartime. Additional advice is provided on possible shipping losses from the accessible area.

b. The State Department advises on possible political and economic conditions within materials producing areas in wartime and suggests certain safety factors intended to make appropriate provision for bad conditions.

c. Other factors are also included such as specific discounts for especially vulnerable facilities which could be paralyzed by atomic attack or sabotage, and for concentrated sources (an attempt to reflect the old adage: "don't put all your eggs in one basket").

4. Stockpile Objectives

Stockpile objectives are reviewed, and revised if necessary, when major changes in requirements or supply estimates are indicated.

a. *The Minimum Objective*

The minimum stockpile objective is normally computed by comparing the total expected wartime supplies (after applying to the supply data the discounts described in 3 a., b. and c. above) to the total requirement. Where the factored supply is less than the requirement, the indicated deficit is generally established as the minimum stockpile objective.

(1) *Danger Point*

That portion of the minimum stockpile objective that would be essential to meet a 3-year war is calculated separately and is known as the danger point within the minimum objective.

b. *The Long Term Objective*

Pursuant to President Eisenhower's Directive of April 14, 1954, which followed the recommendations of the Cabinet Committee on Mineral Policy, "long term" objectives are established for minerals (including metals). These objectives are computed by discounting completely all foreign sources of supply except Canada, Mexico, and the countries bordering on the Caribbean and then comparing the supply data to the total requirement. The long term objectives are generally somewhat higher than the minimum objectives. A special safety factor has been included, pursuant to a Presidential Directive of July 15, 1954 that, "When it is determined that a material is strategic and critical and should be stockpiled under the Stock Piling Act, the long term stockpile objective in no case should be less than one year's normal United States use of the material."

c. *Quality*

While it is recognized that there are many grades of each major material, almost all of which will be used in time of war, stockpile specifications provide for the acquisition of only a small number of grades—among the higher and medium qualities. In time of war material in the stockpile can then be blended with lower grade materials that might be produced under wartime conditions. In certain instances where Korean War expansion programs under the Defense Production Act resulted in government acquisition of materials not meeting stockpile specifications, these substandard materials are not included in the stockpile but instead are segregated and held under separate account, awaiting future beneficiation or possible sale.

C. Stockpile Acquisitions

1. General

In acquiring materials for the stockpile preference is given to material of U.S. origin. The "Buy-American" Act is included in the

Stock Piling Act by reference and the present pricing policies thereunder are considered. Where domestic materials cannot be obtained at reasonable prices in adequate quantity and quality to meet stockpile schedules, foreign material is also purchased. Where Stock Piling and/or Defense Production Act contracts will result in expanding productive capacity every effort is made to encourage such expansion preferably in the U.S. or, alternatively, in nearby foreign countries that will be strategically accessible in time of war. When stockpile objectives are substantially on hand the rate of procurement is generally tapered off so as to cause the minimum unsettling effect in commodity markets. In some instances the materials being stockpiled require rotation to prevent deterioration, and where possible rotation is accomplished by "wash sales"—the stockpile material being sold and the replacement material being purchased at the same time so as to avoid market impacts.

2. Danger Points and Minimum Objectives

Since the danger points represent the amounts deemed most critical to meet projected wartime needs for a 3-year war period highest priority is given to stockpile acquisitions necessary to bring the stockpile inventory up to the danger point level. Once the danger points have been achieved, acquisitions toward the remaining portion of the minimum stockpile objective can proceed at a somewhat lower degree of urgency. It is general policy to attempt to achieve minimum stockpile objectives within a period of time consistent with the national security (judged on a material-by-material basis). In the event that supplies from normal sources appear inadequate to permit such accomplishment, then government expansion programs, utilizing where necessary accelerated tax amortization and contracts under the Defense Production Act, are put into operation on recommendation of the responsible delegate agencies.

3. The Long Term Objectives

The long term objectives are generally larger than the minimum objectives and represent a higher level of defense insurance. Consequently, as indicated in the Presidential Directive of April 14, 1954, procurement toward the long term objective, once the minimum objectives have been achieved, generally goes forward only when the material can be obtained at prices advantageous to the government (defined as prices normally lower than individual price trends, with due regard for changes in the value of the dollar), where such procurement will also serve to maintain essential elements of the mobilization base which are threatened (programs for lead, zinc, and metallurgical fluorspar are current examples). Where possible materials are also acquired toward the long term objective in exchange for surplus agricultural commodities, or by transferring to the stockpile surpluses generated under other government programs.

D. Present Status of the Stockpile

1. Minimum Objectives

As of December 31, 1955, minimum objectives were valued at about $6.9 billion and materials valued at about $5.2 billion were on hand. Materials for which the danger points within the minimum objectives were not on hand as of December 31, 1955, were as follows:

Asbestos, Amosite; Bauxite, Metal Grade, Jamaican type; Bauxite, Refractory Grade; Fluorspar, Metallurgical Grade; Iodine; Magnesium; Manganese Ore, Battery Grade, Synthetic; Manganese Ore, Chemical Grade, Type B; Mica, Muscovite Block, Stained and Better; Mica, Muscovite Film, First and Second Qualities; Nickel; Selenium; Silicon Carbide, Crude; Silk, Raw; and Talc, Steatite, Block.

Commitments already made under the Stock Piling and Defense Production Acts make substantial provision for the completion of most of the presently unfulfilled danger points as well as the remainder of the minimum objectives.

2. Long Term Objectives

As of December 31, 1955, long term objectives were estimated to add approximately $4.3 billion to the value of the stockpile, and materials valued at approximately $1.1 billion were on hand toward long term objectives. Commitments already made under the Defense Production Act will result in supplies of materials that will assist in completing many long term objectives.

3. Storage

At the present time approximately 23 million tons of material are on hand in the national stockpile. The material is stored at over 250 locations, some being government facilities and others leased private facilities. Material is stored close to the ultimate points of consumption in wartime, thus stockpiling ton-miles of wartime transportation. Stockpile depots are generally located outside the potential danger areas surrounding likely target centers, and these danger areas are based on the latest guidance on nuclear weapons and their effects.

4. Upgrading

Many of the major materials in the strategic stockpile, such as copper, lead, zinc, and tin, are already stockpiled in metal form and need no further upgrading. In the case of ores and other unrefined materials where ODM, advised by the Departments of the Interior, Commerce, and others, can identify processing facilities that in time of war would be especially vulnerable, a portion, or all, of the minimum stockpile objective is upgraded.

In addition to the foregoing, the Cabinet Mineral Policy Committee recommended, and the President approved, that materials in the stockpile should be upgraded to the point at which they are more readily usable in the economy, whereby electric power, transportation, manpower, facilities, and time—all of which will be short in time of war—are also stockpiled. The President's Directive of April 14, 1954, provided that upgrading, other than as specifically required to offset the possible loss of vulnerable facilities described above, should normally be done when it can be accomplished at favorable prices and periods of lowered economic activity. Thus, distressed conditions in connection with domestic mineral industries that are an important element of the nation's mobilization base can be alleviated. The high level of the domestic economy results in little need for such activity at the present time.

E. Disposition of Materials no Longer Needed

Stockpiled materials no longer needed may normally be disposed of only by publication of the proposed plan of disposition in the *Federal Register* and express approval of the Congress, so that the interests of the United States Government, as well as producers, processors, and consumers, are protected. However, when materials are disposed of by reason of obsolescence (on account of (1) deterioration, (2) development or discovery of a new or better material or materials, or (3) no further usefulness for use in time of war) the express approval of the Congress is not required.

F. Relation of Stockpile to Wartime Mobilization Planning

Mobilization plans "D" and "D Minus" include provision for releases of material from the strategic stockpile in time of war. No detailed release plans have as yet been developed.

G. Relationship of Stockpile to Present Emergency Conditions

At present emphasis is placed on accumulating the minimum stockpile without undue delay so that it will be available in the event of all-out war. However, the Stock Piling Act provides that acquisitions should normally be made, so far as is practicable, from supplies of materials in excess of the current industrial demand. Consequently, where the responsible delegate agencies, in particular the Department of Commerce, make convincing representations that material destined for the stockpile under Stock Piling or Defense

Production Acts contracts is urgently needed in the general industrial economy, then deferrals of purchases may be authorized by the Office of Defense Mobilization. In contrast to deferrals, however, *releases* from the stockpile may be made only (a) on order of the President at any time when in his judgment such release is required for purposes of the common defense or (b) in time of war, or during a national emergency with respect to common defense proclaimed by the President, on order of such agency as may be designated by the President.

H. Authority to Acquire Items Other Than Materials

In recent years there have been proposals to "stockpile" various manufactured articles including railroad cars, tankers, components, and civil defense relief supplies. It is generally felt that where such action is needed it should be done under the Defense Production Act or under specific legislation rather than under the Strategic and Critical Materials Stock Piling Act.

Part II. Possible Use of the Present Program to Further Certain Foreign Policy Objectives of the United States

In past years stockpiling had many significant foreign policy implications. In the years from World War II to the start of the Korean War only very limited funds were available for stockpile procurement, although world supplies would have permitted far greater acquisitions at reasonable prices. Then, with the start of the Korean War, billions were appropriated for stockpiling but meanwhile world demand for materials rose sharply. Thus stockpile procurement had to be accelerated in a period of many shortages since, in 1950 and 1951, it was impossible to determine whether all-out war might come at any time. Consequently stockpiling buying by the U.S. contributed in part to raising world materials prices. This effect was welcomed by the nations that produce materials, but was of course deplored by those nations that are industrialized consumers.

In past years it was also possible in many cases to have stockpile procurement serve the auxiliary purpose of assisting the economy of certain friendly foreign countries, for example: by buying Bolivian tin, Indonesian rubber, Chilean copper, etc. At present, however, the bulk of the stockpile is either on hand or provided for by commitments already made under the Stock Piling Act and/or the Defense Production Act. Consequently, there are few areas where *new* stockpile procurement could be of material assistance to foreign materials producing countries.

Table I attached[4] lists the materials and shows the open quantities still to be acquired toward minimum and long term objectives, together with major producing foreign nations. The quantities shown thereon are, of course, subject to the over-riding rule that in procuring preference is given to domestic producers who offer materials at reasonable prices. Moreover, it may be necessary to reserve exclusively for domestic procurement a major portion of some of the quantities in order to assist in maintaining the domestic component of the United States mobilization base. Moreover, the table does not necessarily imply that procurement will take place in any or all of the specified countries. Procurement, moreover, is subject to the availability of funds, requiring additional appropriations in future years. No commitment on the basis of this table should be made to any foreign country or producer since it is the responsibility of the General Services Administration to make necessary contracts.

Where disposition or release of stockpile materials in accordance with paragraphs E and G of Part I are contemplated, it is important that the possible favorable or unfavorable foreign policy aspects of such disposition or release be given careful consideration. The Department of State normally advises the ODM and the GSA on such foreign policy implications.

Part III. Strategic Materials Aspects of the Disposal of the U.S. Surplus Agricultural Commodities under Public Law 480

A. Administration

1. Authority

Certain operations involving acquisition of strategic materials while disposing of U.S. surplus agricultural commodities are authorized by the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480, 83d Congress).[5]

Under Title I the Government is authorized to purchase or contract to purchase (using accrued foreign currencies) strategic and critical materials for a *supplemental* U.S. stockpile of such materials as the President may determine from time to time under contracts, including advance payment contracts, for supply extending over periods up to 10 years. The Act provides that such materials may be additional to the amounts acquired under authority of P.L. 520 and that such materials should be released only under provisions of Section 3 of P.L. 520.

Title III of P.L. 480 authorizes the Secretary of Agriculture to protect the funds and assets of the Commodity Credit Corporation by barter or exchange of agricultural commodities for strategic materials entailing less risk of loss through deterioration or substantially less storage charges. This title requires that strategic materials so acquired by CCC shall be considered as assets of the CCC and that other agencies of the government, in purchasing strategic materials, shall purchase such materials from CCC inventories to the extent available in fulfillment of their requirements.

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[4] Not printed.

[5] For text, see 68 Stat. 456.

2. Organizational Responsibilities

Primary responsibility for agreements under Title I and for programs under Title III rests with the Secretary of Agriculture. The ODM determines materials to be purchased or contracted for the supplemental stockpile and the GSA assists in procuring and storing such materials. The costs incident to storage operations are borne by GSA appropriations to administer the Stock Piling Act.

B. Supplemental Stockpile Authorized by Title I of P.L. 480

ODM determines quantities and qualities of materials suitable for the Supplemental Stockpile. The ODM, in paper CFEP 528/5 dated December 28, 1955, and in paper CFEP 528/6 dated February 8, 1956,[6] recommended that:

> "a. The Supplemental Stockpile shall in general include only those materials on the official list of strategic and critical materials for stockpiling for which long term objectives have been established;
>
> "b. As a general rule the quantity to be authorized for the Supplemental Stockpile be 50% of the long term objective, with the further provision that in no case will a quantity be established for the Supplemental Stockpile that will result in the total quantity of any material in the hands of the Government exceeding the total projected 5-year war national security requirement; and
>
> "c. Each material to be obtained for the Supplemental Stockpile should be carefully reviewed on a "case-by-case" (i.e. material-by-material) basis by the Office of Defense Mobilization Interdepartmental Materials Advisory Committee to ensure that proper consideration has been given to the possible need for maintenance of the domestic component of the mobilization base as well as the maintenance of materials producing capacity in nearby reliable countries."

The Council on February 14, 1956, approved the use of the above criteria, as an administrative measure for determining the types and quantities of materials that should be acquired for a Supplemental Stockpile through barter of CCC-owned stocks of surplus agricultural commodities.[7] In taking this action, the Council emphasized that the criteria adopted is a means of administrative limitation and control over acquisitions by these barter transactions and the materials so acquired are not for national defense purposes. On the other hand, the various categories of materials for acquisition in the Strategic Stockpile were established after extensive studies and considerations of our national defense requirements, and their use as a guide and measure for acquiring materials by barter for a Supplemental Stockpile is based on their fundamental and long term value to the economy of the United States.

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[6] CFEP 528, not printed, is entitled "Authorities and Programs for the Disposal of Surplus Agricultural Commodities Abroad." (Eisenhower Library, CFEP Records)

[7] The minutes of the CFEP meeting, February 14, are not printed. (*Ibid.*)

C. Barter to Protect CCC Assets

Where ODM has authorized the GSA to work out programs involving barter of agricultural materials for strategic materials destined for the minimum or long term stockpile objectives, barter activities can and do assist in meeting defense objectives. In such cases CCC is reimbursed for strategic materials transferred to the strategic stockpile. However, unrestricted barter activity to protect CCC assets could occasion some difficulties for the defense program. For example, the ODM is currently reserving certain space within its unfulfilled long term objectives for certain metals and minerals so that, in the event that the domestic industry is threatened at some time in the future, procurement toward the remaining portion of the long term objective could aid in maintaining the mobilization base. If, for such a material, the CCC has meanwhile on its own authority accumulated large stocks of foreign material to protect its assets, government purchase of domestic material for the long term objectives could be more difficult to justify. Moreover, since the law contains no limitations on the manner in which the CCC may dispose of the strategic materials acquired under Title III, this places the CCC in the position of being able to seriously affect normal markets for strategic materials by disposing of accumulated materials in quantities well beyond those routinely traded in commercial circles. The knowledge that such stocks are being accumulated and held could well operate to inhibit expansion by private capital of strategic materials production essential for defense purposes.

To properly insulate such stocks the Council on Foreign Economic Policy endorsed the idea that provision should be made for transfer of such materials in excess of the needs of the strategic stockpile to the supplemental stockpile. Section 306 of the Committee print of the Agricultural Act of 1956 (S. 3183, Calendar No. 1503, dated February 10, 1956) would provide such authority.

Part IV. Stockpiles of Domestic Minerals Under the Domestic Minerals Program Extension Act of 1953

Shortly after the start of the Korean war, the Government authorized (under the Defense Production Act) several domestic mineral purchase programs under which the Government guaranteed to buy materials delivered to it by any producer at prices substantially in excess of normal prices. These programs were initiated as a hedge against the possibility that all-out war might come sometime in 1951–1952, under which circumstances those domestic minerals would have been required to meet defense needs, since the stockpile under P.L. 520 was then far from complete and other major expansion projects required several years to get into production. These programs covered asbestos, beryl, columbium-tantalum, manganese, mica, tungsten, and chrome and were scheduled to expire at the ends of various time periods (generally from 3 to 5 years) or when quantities specified in the program had been accepted by the Government. Specifications for some of the materials were lower than stockpile specifications under P.L. 520, but material usable by industry was normally purchased. However, in the case of the low-grade manganese ore purchase program it was recognized that mills would have to be erected near the purchase depots to beneficiate the low-grade ores purchased.

It was originally contemplated that the programs would not be extended by the defense agencies unless extension in time or in quantity were needed for defense purposes. However, in 1953, the Congress passed the Domestic Minerals Program Extension Act of 1953 (P.L. 206, 83d Congress, August 7, 1953)[8] which made a blanket 2-year extension of the original program termination dates. Consequently, in the case of certain of the materials, the Government has been required to buy materials that would not otherwise have been purchased for defense purposes. In 1955 the Congress passed H.R. 6373 which in general would have doubled all quantities that the Government offered to purchase under the original program. The President on August 14, 1955 vetoed H.R. 6373 on the basis that it would have continued purchase of excess quantities of materials at prices considerably in excess of market prices for certain minerals after defense needs had been met.

Where material from these programs meets stockpile specifications, and where it can be applied toward existing minimum or long term objectives, the material is added to the strategic stockpile under P.L. 520. Materials that (a) do not meet stockpile specifications or (b) are in excess of the long term stockpile objectives are held by the

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[8] For text, see 67 Stat. 417.

GSA in a separate account; they could be disposed of under the resale authority of the Defense Production Act but, under current conditions, the possibilities of disposition appear remote, even assuming substantial loss upon resale.

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214. Memorandum From the Director of the Office of International Trade and Resources (Thibodeaux) to the Assistant Secretary of State for Policy Planning (Bowie)[1]

Washington, March 30, 1956.

SUBJECT

Middle East Oil Situation Under Certain Changed Conditions

Attached is a preliminary memorandum showing the effects on the world oil situation of the inability to deliver Middle East petroleum to the Mediterranean via the Suez Canal and the existing pipe lines. It contains the information you requested from Mr. Eakens yesterday.

The memorandum was prepared by a small working group consisting of representatives of Interior, Defense and State, under the chairmanship of Mr. Hugh A. Stewart, Director, Office of Oil and Gas, Interior. When Mr. Eakens called on Mr. Stewart yesterday afternoon to discuss the matter, Mr. Stewart already was in conference with petroleum officials of Defense on the same general subject. The attached memorandum represents a unified Interior–Defense–State view at the oil-staff level.

The memorandum at this stage is brief and preliminary. A more thorough analysis would require several days. The group that prepared the memorandum could prepare a more complete memorandum if one is required. If the problem is to be considered on more formal basis interdepartmentally, it is believed that the appropriate body before which to lay the problem is the National Security Council.

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[1] Source: Department of State, PPS Files: Lot 66 D 487, Strategic Materials—Oil. Secret. Drafted by Eakens.

[Attachment]

Memorandum for the Record, Prepared in the Oil and Gas Division, Department of the Interior[2]

Washington, March 30, 1956.

SUBJECT

Effects on the Free World petroleum economy under certain assumed conditions in the Middle East area

This memorandum will cover the following three cases:

Case 1: Suez Canal closed, Trans Arabian Pipeline closed, Iraq Petroleum Company's pipelines closed.
Case 2: The same transportation facilities closed and no availability of either products or crude oil from Saudi Arabia.
Case 3: Same as Case 2 with the added provision that no products or crude oil would be available from the Middle East area.

General—The current Free World demand is approximately 14.2 million barrels per day. About 3.4 million barrels per day of crude is supplied from the Middle East. Europe's consumption of 2.6 million barrels per day is supplied almost wholly from the Middle East. European consumption is increasing at the rate of about 15 percent per year.

The current Free World available tanker average is 2,211 ships. The current average demand is 2,100 ships. These figures exclude MSTS's tankers and the 50 tankers in the Maritime reserve fleet.

A portion of these tankers are now being used to pick up in the Eastern Mediterranean the 300,000 barrels per day delivered by Trans Arabian Pipeline and the 500,000 barrels per day delivered by Iraq Petroleum Pipeline, and to move these quantities to Western and Southern Europe and North America. Tankers are also being used on the run from the Persian Gulf through the Suez Canal to Western Europe to move 1,200,000 barrels per day.

This study does not take into account the far-reaching political and economic effects which would result under any of the three cases.

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[2] Secret. A note at the end of the source text indicates the memorandum was prepared as a "quick evaluation by representatives of the Office of Oil and Gas, Department of the Interior, Petroleum Logistics Division, Department of Defense, and Fuels Division, Department of State".

Conclusions

1) If any of the above three cases should occur, far-reaching adjustments would have to be made to continue to supply the current demands.

2) Both national and international controls would have to be introduced.

3) An appreciable amount of time would be required to make the changes.

4) In Case 1 and Case 2, because of insufficient tankers to move crude oil around the Cape of Good Hope, a major shift would have to be made in crude production substantially reducing production in the Middle East and increasing production in the Western Hemisphere. During winter months production shortages would necessitate rationing.

5) In Case 3, in addition, current demands could not be met and rationing would be required, particularly in the United States and Europe.

6) In all cases, because of the time required to make the changes, free world petroleum stocks would be reduced to dangerously low levels.

Discussion

Case 1—In order to transport the 2,000,000 barrels per day formerly supplied by the Middle East through Suez and from the Trans Arabian and Iraq Pipelines terminating on the Eastern Mediterranean, major shifts in sources of crude oil would be necessary to create shorter tanker runs. Crude oil production in the U.S. and Canada would have to be increased 1.3 million barrels per day, production in the Caribbean would be increased 200,000 barrels per day, and 500,000 barrels per day would continue to be lifted from the Persian Gulf. The increases in crude oil production in the U.S. and Caribbean are believed to be possible for 90 days if extraordinary measures are employed. Beyond the 90-day period, grave doubts exist whether this production could be maintained. U.S. production for an extended period might fall far short of requirements. Considering the new sources of crude, approximately 160 more tankers would be required.

Since there is only an average excess of 110 tankers in the commercial fleet, the balance of 50 tankers would have to be withdrawn from the reserve "mothball" fleet. During winter months, the period of peak tanker demands, there will be a tanker shortage.

Under Case 1 conditions assuming extraordinary operations and controls, it appears that during a 90-day summer period, petroleum could be produced and moved to approximate free world demands.

Over a long period, or in the winter, production shortages would necessitate rationing.

Case 2—Under Case 2 the situation would not be radically different from Case 1, since Saudi Arabian production and refining capacity utilized under Case 1 could be replaced by other Persian Gulf sources.

Case 3—Approximately 3.4 million barrels per day of petroleum are produced in the Middle East, of which approximately 0.3 million barrels per day are consumed locally. Therefore, 3.1 million barrels per day from the Middle East would no longer be available.

Considering a summer period of 90 days and assuming extraordinary operations and controls, it is believed that the following additional production could be obtained from the sources indicated:

U.S.	1.5 million barrels per day
Caribbean	0.3 million barrels per day
Indonesia	0.1 million barrels per day
Canada	0.2 million barrels per day
Total	2.1 million barrels per day

This indicates that there would be a shortage of at least a million barrels per day of crude oil to the free world and consequently a similar amount of petroleum products. Expressed as a percentage, this means that the free world demand would have to be reduced 7 percent by rationing. Such rationing, in peacetime, would create serious domestic and international problems.

If the denial of Middle East oil were to be extended to one year, the additional crude oil production that could be obtained from the sources indicated above would drop to 1.5 million barrels per day. This would require rationing of about 12 percent. This corresponds roughly with the degree of rationing experienced in the U.S. in World War II.

Due to the above shortage of crude oil, it is considered that the current tanker fleet could handle the transportation involved for this Case.

215. Letter From the British Ambassador (Makins) to Secretary of State Dulles[1]

Washington, April 6, 1956.

MY DEAR SECRETARY OF STATE: In our recent talks about the Middle East we discussed the problem of maintaining oil supplies in the event of the pipelines and the Suez Canal being no longer available.[2]

I have now been asked to let you know that Her Majesty's Government are already studying this and hope to have the results ready shortly. They would be glad to compare notes with the State Department as soon as possible. A situation in which both the Canal and the pipelines were closed would throw a very severe strain on British shipping; and the study will not be complete until they know what oil and shipping could be provided from American sources.

Her Majesty's Government are also engaged in making a long-term study on the movement of oil from the Middle East and the amounts of investment that might be devoted to the various available forms of transport (essentially more pipelines, improving Suez Canal, and construction of very large tankers for use round the Cape and to United States Pacific ports). This involves making assumptions as to future quantities of oil to be moved which are extremely tentative. The Departments concerned are consulting oil and shipbuilding companies in the United Kingdom. It would be most valuable if on the American side a similar study could be made and notes compared with us.

As regards the Suez Canal, the Foreign Office Legal Advisers doubt whether we should have any *legal* right to intervene. First, no general right is provided by the convention[3] to use force for the purpose of keeping the Canal open. Second, although it might be argued that the United Kingdom, as successor to Turkey, would have this right under Article IX, the terms of that Article make such intervention subject to the request by Egypt. Third, in the light of the United Nations Charter and the decision of the International Court in the Corfu Channel case,[4] which also involved the right of innocent passage, it is very doubtful whether it would be lawful for the United Kingdom or the United States to take unilateral action by force to re-open the Canal. But it might become necessary for all that. Mr. Selwyn Lloyd would be very interested to have your considered views on these points and the suggestion which you quoted on April 1 that the Suez Canal had been an international waterway for so long that if it were closed we should have the right to move in under international law, even though it would have to be recognised that this might be a major military operation.

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[1] Source: Department of State, Central Files, 880.2553/4–656. Top Secret.

[2] Reference is to a conversation between Dulles and Ambassador Makins on April 1, when Dulles asked if the British Government had prepared any studies on what should be done if the Middle East situation deteriorated and the pipelines and the Suez Canal were no longer available to their governments. The Secretary said he would like to compare notes with the British on this problem and was especially interested in the effect on supplies of having to send tankers around the Cape, and in what possible alternative arrangements could be made. (Aide-Mémoire from the British Embassy entitled "Suez Canal and Oil Supplies", August 3; *ibid.*, 880.2553/8–356)

[3] Reference is to the Suez Canal Convention of 1888, signed by Great Britain, France, Germany, Italy, Austria, Spain, the Netherlands, Russia, and Turkey, which declared the canal free and open to merchant and war vessels of all powers in time of war and peace.

Yours sincerely,

Roger Makins

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[4] Reference is to the Corfu Channel Case where the International Court of Justice ruled in 1949 that the British Government was legally justified in sending a flotilla of four ships of war with crews at action stations and with orders to fire if attacked through the North Corfu Channel in order to affirm the right of passage.

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216. Memorandum From the Chairman of the Economic Intelligence Committee (Guthe) to the Members of the Committee[1]

Washington, April 9, 1956.

SUBJECT

Proposal for Study of Middle East Oil Situation

1. Need has been expressed for a coordinated assessment of the likely impact of possible developments affecting Middle East oil. Mr. Dillon Anderson, Special Assistant to the President for NSC Matters, in a discussion with the Assistant Director for National Estimates, CIA, suggested that, as necessary intelligence background for US actions in the Middle East, we should assess the impact of these actions on Middle East oil. Other high-level requests for intelligence

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[1] Source: Department of State, OF Files: Lot 59 D 578, Middle East Petroleum. Secret. The members were the Economic Intelligence Committee representatives of the Intelligence Advisory Committee Agencies and also of the Office of the Secretary of Defense, the Department of Interior, and the International Cooperation Administration.

in this field have revealed that although there is available a large amount of factual information relating to Middle East oil, such information has not been put together in a form, and analyzed in a manner, which permits the ready answering of significant questions which have been and are likely to be raised in this field.

2. What Mr. Anderson and others seem to feel a need for is a reliable statement of:

a. the essential facts regarding Middle East oil and its importance to the West in peace and war;
b. the practicability of a shift to Soviet or "independent" participation or control in Middle East Oil production and distribution;
c. the economic implications of such a shift for the US and its Western allies, the Sino-Soviet Bloc, and the Middle East oil producing countries.

3. A study on this subject should be valuable to the National Security Council Planning Board as a framework for considering possible US courses of action regarding the Middle East oil producing and oil transit countries, and for evaluating the probable dimensions of any developing threat to the Western oil position in the area.

4. It is considered that this study should be undertaken as a special coordinated research project rather than as a National Intelligence Estimate because of its technical and only partly estimative character. An NIE on the estimative aspects of this situation (political trends in the oil countries, Soviet intentions, wartime considerations, etc.) may be needed at a later time, but it seems that this NIE should be separate from and preferably grounded on an economic and technical survey which would be undertaken in the proposed study.

5. A statement of the problems involved, as seen by the ONE staff, is attached hereto.[2]

6. It would seem to be desirable to establish an EIC ad hoc Working Group for the purpose of preparing this study. This Working Group should consist of representatives of those agencies which have important capabilities in this field. As the first order of business, the specialists on such an ad hoc Working Group should proceed to prepare a detailed terms of reference for the proposed study. This outline would be reviewed by the EIC in order to insure that all significant aspects of the problem are considered prior to the preparation of the study. In view of the immediacy of need for an agreed study on this subject, it would be highly desirable for the proposed study to be completed as soon as possible and at most within four (4) months.

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[2] Not printed.

7. It is recommended that the EIC authorize the establishment of an EIC ad hoc Working Group to prepare a study on the Middle East oil situation, proceeding as indicated in paragraph 6 above. This recommendation will be considered at the EIC meeting scheduled for 12 April 1956.[3]

Otto E. Guthe

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[3] The completed study dated May 8, 1956, was sent to Hoover on May 23; see Document 219.

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217. Memorandum From the Staff Director of the Petroleum Logistics Division, Department of Defense (Cotulla), to the Regional Director, Near East, South Asia, and Africa, of the Office of the Assistant Secretary of Defense for International Security Affairs (Wagner)[1]

Washington, April 25, 1956.

SUBJECT

Plans for actions to supply the Free World's Petroleum Requirements if Middle East Oil is denied

As a result of your question on this subject, the matter was discussed with the Office of Oil and Gas, Department of the Interior.

That department coordinates Federal petroleum policies and is responsible for (1) contact with the petroleum industry; (2) priorities and allocation of petroleum; (3) preparedness measures on petroleum.

In general, no detailed plans have been prepared. It is impractical to do so since the situation is not static. It is visualized that when old sources are not available, orders will be placed on new sources through commercial channels. Arrangements will be made for tanker transportation as is done now. Individual companies will increase production commensurate with their capability and the demands placed on them. The demand for tankers would probably cause tanker operators to buy the ships currently in the Maritime Reserve Fleet. Each nation would impose rationing as necessary to keep consumption in line with available supplies.

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[1] Source: Department of State, OF Files: Lot 59 D 578, Middle East Petroleum. Confidential. On April 27, Roger Kirk, in the Office of Reports and Operations in the Executive Secretariat, sent this memorandum to Monteagle Stearns, in the Office of Near Eastern, South Asian, and African Affairs, for George V. Allen and Rountree.

It is anticipated that Interior would probably set up an organization (similar to the Petroleum Administration for Defense of the Korea period) under the authority of Executive Order 10480 to handle the problems of production, refining and rationing.

The Office of Defense Mobilization would probably be requested to declare an "emergency" in order to give the Foreign Petroleum Supply Committee "anti-trust immunity" so that concerted action by the member companies under the Voluntary Agreement could be arranged to solve the problems that arise. Similar action was taken to handle the "Abadan" crisis. The FPSC would prepare a "plan of action" to cover production and distribution outside the United States. Their plan would be in coordination with the British Petroleum Advisory Committee in order to cover the entire free world situation. The plan would be submitted to the Interior Department for review and approval.

Coordination with French and Dutch petroleum groups would probably be handled through NATO's Petroleum Planning Committee.

It should be realized that the above is a quick summary of the situation.

L.E. Cotulla
Brigadier General, USA

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218. Letter From the Acting Secretary of State to the Director of the Office of Defense Mobilization (Flemming)[1]

Washington, May 5, 1956.

DEAR DR. FLEMMING: In connection with our conversation a few days ago on crude oil imports, let me give you the Department's views. We recommend that no addition be made to the list of countries exempted from restrictions on such imports. Venezuela and Canada, which supply the bulk of our imports from the western hemisphere, are already exempted. Colombia and Mexico are relatively small suppliers. Their exemption might lead to requests that we accord comparable treatment to other small suppliers in the area and possibly in other areas. In addition, there are certain problems in our relations with Mexico which make it undesirable to appear to single that country out for favorable treatment at the present time.

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[1] Source: Department of State, Central Files, 411.006/5–556. Drafted by Jean H. Mulliken, Officer in Charge of Commodities and Commercial Policy, Office of Inter-American Regional Economic Affairs, and Robert C. Sturgill, Reports and Operation Staff, Executive Secretariat.

Sincerely yours,

Herbert Hoover, Jr. [2]

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[2] Printed from a copy that bears this stamped signature.

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219. Preliminary Report by the Economic Intelligence Committee [1]

Washington, May 8, 1956.

ECONOMIC IMPLICATIONS OF THE DENIAL OF MIDDLE EAST OIL

Summary

1. The Middle East is potentially the Free World's most important petroleum area. It contains the bulk of the proved oil reserves, is the principal oil exporter and is second only to the U.S. in oil production. Middle East oil now supplies nearly one-half of Free World oil requirements (excluding the U.S.). Eastern Europe is almost entirely dependent on that area for its crude oil supplies.

2. If the oil-producing and oil-transit states in the Middle East deny oil to the Western nations, they could, with their own man-

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[1] Source: Department of State, PPS Files: Lot 66 D 487, Strategic Materials (Oil). Secret. Prepared at the request of the NSC Planning Board by an ad hoc working group of the Economic Intelligence Committee (EIC) that consisted of representatives of the Departments of State and the Interior, the Office of the Secretary of Defense, the International Cooperation Administration, and the Central Intelligence Agency. It was approved as a preliminary EIC report for selected distribution and was sent to Hoover under cover of a May 23 memorandum by W. Park Armstrong. Only the summary of the report is printed. The full text includes a foreword, an introduction, tables, and charts. A copy of the May 3 draft of this report, sent to Hoover by Armstrong under cover of a memorandum dated May 4, is *ibid.*, State–JCS Meetings: Lot 61 D 417. Copies of both the draft and the report are also in Eisenhower Library. The May 3 draft is attached to a memorandum of May 4 from Robert Komer to Dillon Anderson in the Project Clean Up Records, 1953–1961, and the May 8 report is in CFEP Chairman Records, 1953–1961.

power and resources, operate their oil industries at a low level but sufficient to meet their own limited needs. The principal weakness of these states is not in production but in the lack of their own tankers to move the oil and the distribution facilities to market it in the Free World.

3. The Sino-Soviet Bloc is capable of assisting the oil states with respect to skilled personnel, know-how, materials, and equipment. However, since the Bloc is a net exporter of petroleum, it is unlikely that the Bloc could absorb any significant quantities of Middle East oil without a corresponding cutback in Bloc production. Moreover, the relatively few Bloc tankers represent a maximum lift capability of only about one-tenth of the current Middle East output.

4. Denial of Middle East oil would involve serious dislocations of supplies for the West, necessitating governmental and intergovernmental arrangements. The kind and degree of impact would depend in part on whether the denial was partial or complete, and in part on its duration. In any case, major production and tanker shifts would be required in order to maximize the oil potential of other Free World sources, principally the U.S. Gulf and nearby areas, and at the expense of Western Hemisphere reserves. The fuel shortages would be severe, especially in Western Europe. Pressure on oil and other fuel prices and tanker rates would be intense.

5. Partial denial (as outlined in Case 1 of this report) would probably reduce Western Europe's supply of oil by approximately 15 percent of present consumption, but further increases in production elsewhere and rearrangements of transport could eliminate this shortage within a year. By contrast, complete denial (Case 2) even a year after the initial impact would probably result in a reduction of Western Europe's supply by approximately 80 percent, if the entire burden were borne by that area. If the United States rationed its consumption in order to equalize the loss, the Western European deficiency would be reduced, but the over-all Free World loss would still be about 15 percent of present consumption. In either case denial would result in higher oil costs, a significant dollar drain on West Europe's balance of payments, and a slowdown in energy consumption throughout the Free World, presently growing at a rapid rate.

6. The immediate economic effect of denial on the producing and transit states would not be severe, but after six months or more, and in the absence of external economic assistance, a critical economic situation would exist in those states which depend almost entirely on oil revenues.

220. Letter From the Director of the Office of Defense Mobilization (Flemming) to the Oil Importing Companies [1]

Washington, May 11, 1956.

The Presidential Advisory Committee on Energy Supplies and Resources Policy has made a re-evaluation of the situation relative to the imports of crude and residual fuel oils. Enclosed with this letter is a staff memorandum which has been used by the Committee in making its review. [2] This re-evaluation has been made in the light of the following recommendation in the report which the Committee made public on February 26, 1955.

"The committee recommends, however, that if in the future the imports of crude oil and residual fuel oils exceed significantly the respective proportions that such imported oils bore to domestic production of crude oil in 1954, appropriate action should be taken."

On the basis of the facts set forth in this memorandum, the Committee has arrived at the following conclusions:

1. On an over-all basis the ratio of crude oil imports to domestic production for the last nine months of 1955 was 5.17 percent as compared with 4.64 percent for the 1954 base period, excluding imports into District 5 (West Coast) and all imports from Canada and Venezuela.

We believe that, under present conditions, imports into District 5 (West Coast) should not be considered in determining, on a nation-wide basis, the question of conformity or non-conformity with the Committee's basic recommendation. We believe that this policy should be followed because there is no present indication of an increase in production in District 5. As a result, it is logical to expect a larger volume of imports into this District in order to meet increasing demands although it should be noted that during the period covered by this report the inclusion of District 5 figures would have a minor influence on the nation-wide analysis. The Committee will continue to follow the situation in District 5 and if at any time it concludes that imports threaten to impair the national security, it will make special recommendations applicable to District 5.

The reasons for excluding imports from Canada and Venezuela were indicated in the letter of October 29, 1955. Again, however, we call attention to the fact that any sharp increase in the imports from these sources (exclusive of the amounts needed in District 5) could threaten to impair our national security. This aspect of the total problem will be kept under careful surveillance by the Committee.

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[1] Source: Department of State, Central Files, 411.006/5–756. No drafting information is given on the source text.

[2] Not printed.

2. The adjustments made in imports of crude oil for the first quarter of 1956 by most of the importing companies reporting to ODM following receipt of the letter of October 29, 1955 from the Director of ODM, resulting in actual imports substantially below original plans, are a source of real satisfaction.

3. However, the increase in planned imports for the second quarter on the part of some companies is a source of real concern. If these plans materialize, it would result in an over-all excess for the first half of 1956 which will not only offset the satisfactory conditions indicated earlier in the year but will nullify the efforts of a majority of importing companies to conform with the Presidential Advisory Committee recommendations. It is hoped that downward adjustments will be made in actual imports to such a level below these indicated plans that the over-all crude oil import situation for the year 1956 will show a satisfactory relationship to domestic production, as recommended.

4. Imports of residual fuel oil during the last nine months of 1955, exclusive of imports for ships' bunkers and for military use, were below the figure suggested by the Advisory Committee in its report.

In view of the fact that imports for ships' bunkers and for military use have no direct relationship to the objectives set forth in the recommendations of the Presidential Advisory Committee, we believe they should not be considered in determining on an over-all basis the question of conformity or non-conformity with the Committee's basic recommendation.

5. The planned imports of residual fuel oil for January–June 1956, as compared with a corresponding period in 1954, exclusive of imports for ships' bunkers and for military use, are only slightly in excess (5,000 B/D) of the amount indicated by the Advisory Committee's recommendations.

This program is, therefore, substantially in accord with the Committee's recommendations. The small planned increase may well be needed to build up stocks of residual fuel oils to levels consistent with past experience and to give assurance of meeting next winter's requirements.

6. A re-examination of the Committee's formula relating to the imports of both crude and residual oils should be undertaken and completed by September 1, 1956. This is in conformity with the following extract from the Committee's February 1955 report:

> "The committee recommends further that the desirable proportionate relationships between imports and domestic production be reviewed from time to time in the light of industrial expansion and changing economic and national defense requirements."

7. If, following this re-examination of the Committee's formula, and a re-evaluation of the import situation in the light of the re-examination, the Committee finds that import programs are threatening to impair the national security, the Director of the Office of Defense Mobilization should schedule a public hearing not later than October 1, 1956, under the provisions of Section 7 of the Trade Agreements Act.

In the light of the requirements placed on me as Director of the Office of Defense Mobilization by Section 7 of the Trade Agreements Act, I have considered and accepted the conclusions of the Advisory Committee on Energy Supplies and Resources Policy.

I will be very glad to hear from you relative to any views you may have on the matters discussed in this letter or in the enclosed memorandum.

Sincerely yours,

Arthur S. Flemming[3]

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[3] Printed from a copy that bears this typed signature.

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221. Letter From the Director of the Oil and Gas Division, Department of the Interior (Stewart), to the Counselor of the Department of State (MacArthur)[1]

Washington, May 16, 1956.

MY DEAR MR. MACARTHUR: The attached memorandum has been prepared in this Office with the assistance of the Departments of Defense and State after a joint discussion of the U.K./Middle East oil paper.[2]

I wish to point out that, although our estimate of Western Hemisphere availability contained therein is preliminary, we are satisfied of its soundness as an "order of magnitude" figure. It is understood, of course, that no commitment in regard to future eventualities is implied or should be inferred from this estimate.

If it should become necessary to maximize shipments from the Western Hemisphere to the U.K./Europe area in emergency, the initial impact would fall primarily on the U.S./Gulf Coast. Far-reaching adjustments to the U.S. petroleum position would result, not the least of which would be a sharp rise in the price of crude petroleum at the wells and of products to the American public, and a lamentable draft upon U.S. oil reserves. Restrictive governmental actions, such as price and use controls, might be called for to cope with problems incident to these changes. To adopt such controls, for which there is no precedent or authority in existing law under conditions of peace, would entail serious political consequences.

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[1] Source: Department of State, Central Files, 880.2553/5–1656. Secret.

[2] Not printed. (*Ibid.*, State–JCS Meetings: Lot 61 D 417)

A corollary to rising oil prices in the U.S. would be higher prices and shipping costs on shipments to the U.K. and Western Europe with the need for dollar payments to a much greater extent than at present. Although the British paper mentions 250 to 300 million dollars as an estimate of added dollar needs "at current prices" under Case A, this is believed to represent only a part of the probable potential liability. It seems realistic to assume that such liability would seriously aggravate the already difficult balance of payments position of the U.K. and perhaps other countries as well.

As to the more detailed appraisal of operating factors mentioned in paragraph 12 of the U.K. paper, we propose to explore this second phase of our assignment in consultation with experts of the Military Petroleum Advisory Board, and would thereafter be prepared to meet with the British on the technical aspects of the problem.

Sincerely yours,

H.A. Stewart

[Attachment]

Memorandum From the Director of the Oil and Gas Division, Department of the Interior (Stewart), to the Counselor of the Department of State (MacArthur)

As agreed at the meeting with you on May 10, 1956, the following brief comments are submitted with reference to the United Kingdom paper on Middle East oil which you might wish to discuss with the British.

We have studied this paper and believe that the only specific question raised that requires an immediate reply is contained in Section 7, page 2. This relates to the assumption that an additional output of about 25 million tons per year (500,000 B/D) could be promptly obtained from Western Hemisphere sources in the type of emergency contemplated.

This assumption appears conservative in the light of information available to us. It is estimated, solely upon the basis of a preliminary appraisal of physical facilities and operational capabilities, that about 40 million tons per year (800,000 B/D) of oil could be made available in a short time for emergency shipment from the U.S. Gulf/Caribbean area to the U.K./Western Europe. Use of this figure would change some of the British calculations.

In making this estimate no consideration has been given to the effect upon prices or costs, either at the well or delivered to Europe, that might result from the addition of so great an increment to the oil production required from Western Hemisphere sources. Under conditions of maximum production and tanker use, prices at the well and costs of ocean transport would undoubtedly increase significantly. Neither has consideration been given to political questions involving the possibility of controls on price or use which might be required of the U.S. or other governments under the conditions assumed. In peacetime an act of Congress would be needed to authorize such controls.[3]

H.A. Stewart

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[3] The substance of this memorandum was conveyed to the British Embassy in a memorandum from Rountree to Bailey, May 17. In a memorandum for Hoover, May 21, MacArthur wrote, "In handing the memorandum to Mr. Bailey, Mr. Rountree would make clear that this is a technical evaluation of certain of the assumptions in the British memorandum and carries with it *no* commitment of any kind." (Department of State, Central Files, 880.2553/5–2156. Roundtree's memorandum to Bailey is attached to MacArthur's May 21 memorandum.)

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222. Memorandum of a Telephone Conversation Between the Secretary of State and the President's Special Assistant for National Security Affairs (Anderson), Washington, May 24, 1956, 4:05 p.m.[1]

TELEPHONE CALL FROM DILLON ANDERSON

Sec. returned his call. A. mentioned two Middle Eastern problems. The Baghdad Pact matter was taken care of by Wilson's second letter.[2] The other is the broader question of whether this is a propitious time to undertake in Planning Board the preparation of a new paper on the Middle East. The President said he felt until some order began to show maybe we better hold and watch it from day to day. A. wanted to check with Sec. to be sure he still thought that way. The Sec. said the only thing he thinks there is need of is an analysis of the oil situation and what we would do in various contingencies. This would indicate whether we can put pressure on the Arabs rather than that they could blackmail us. A. said there is a paper that goes into various contingencies rather than policy. Sec. thinks that is the first and compelling problem—what are the facts, and what do we do in various contingencies, and how much of a chance are we taking? A. said maybe the facts will indicate a new policy. The Sec. has not seen the study. A. said it is available and thinks it is pretty good. A. mentioned joint planning with British on oil. Sec. said nothing has been done politically. A. mentioned, and only to Sec., . . . planning with the group of American companies, and that would not come to Planning Board. A. said the British paper comes close to the same conclusions ours came to and the Sec. may want to get Bowie or Schwartz[3] to give him the essence of it, and the Sec. may want to see something else explored. A. would like to leave it at that—until the President says so there will be no review of the whole policy. A. referred again to the idea of planning with the companies. The Sec. thinks we should talk and plan and he would like to speak to Phleger about it. A. said he wondered if either side would talk unless the President clears it because of political implications and anti-trust laws. A. will leave that with the Sec.

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[1] Source: Eisenhower Library, Dulles Papers, General Telephone Conversations. Transcribed by Bernau.

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[2] Not further identified.

[3] Harry Schwartz, NSC Planning Board Assistant.

223. Memorandum From the Counselor of the Department of State (MacArthur) to the Under Secretary of State (Hoover) [1]

Washington, May 25, 1956.

SUBJECT

Middle East Oil Studies

With reference to our meeting with the Secretary before his departure today and pursuant to your request that I give you a memorandum on what might be said to Mr. Dillon Anderson on this subject, [2] I suggest that you convey the following to him:

As Mr. Dillon Anderson knows, because of the very tense situation in the Middle East, a series of studies have been undertaken in connection with the Middle East Oil situation and notably what we would do if certain contingencies arose involving the stoppage of the Levant pipe lines and/or the closing or blocking of the Suez Canal. There was an initial paper produced on a crash basis on March 30 by the Oil and Gas Division of the Department of the Interior evaluating the effects on free-world petroleum economy under certain assumed conditions in the Middle East Area. [3] Subsequently, a further and more extensive "preliminary paper" was produced under the date of May 3 by the Economic Intelligence Committee's ad hoc working group on Middle East oil. [4] This was essentially an evaluation of the impact of certain situations arising but did not go into details as to what steps might be taken to meet one of several contingencies. There is at present a study which is being conducted at the Secretary's request by an ad hoc group chaired by Mr. H.A. Stewart, Director of the Oil and Gas Division of the Department of the Interior, which will produce a paper on what practical steps might be required to meet some of the contingencies which have been outlined above. Mr. Stewart's ad hoc working group which is carrying on this study on a most secret basis consists of representatives of Defense, State, and Interior and will obtain some information from a few members of the industry who have been cleared for "secret". The study will probably take about three weeks more to complete. The Secretary has requested that until this study is completed and evaluated and we have had a chance to look at it, no additional studies be fed into the NSC Planning Board. However, when we have this study, we will consult with Mr. Dillon Anderson, to whom we will send a copy of the study, as to what we should do next in terms of work by the NSC Planning Group or the ad hoc working group.

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[1] Source: Department of State, Central Files, 880.2553/5–2556. Top Secret.

[2] In a meeting on May 25 on Middle East matters with Hoover, MacArthur, Rountree, Kirk, and Fraser Wilkins, Dulles requested that Anderson be told that a Defense–State–Interior Working Group was currently preparing a paper on measures the United States might have to take to assure a continued flow of oil to Western Europe in the event that the use of the oil pipelines to the east coast of the Mediterranean or the Suez Canal, or both, were denied to the West. Dulles also said Anderson should be told that they felt that any similar study of the oil situation by the Planning Board should await completion of this paper, which was expected in about 3 weeks. (Memorandum for the record, May 25, approved by MacArthur; Department of State, State–JCS Meetings: Lot 61 D 417) Dulles left after the meeting for Duck Island, his vacation home, and did not return to Washington until June 5.

[3] Attachment to Document 214.

[4] For approved text of this paper dated May 8, see Document 219.

There are two other papers bearing on oil of which we have sent copies to Mr. Anderson today: one is a British memorandum delivered to us by the British Embassy, entitled "Middle East Oil Communications" which bears the date of April 17, 1956;[5] the second paper is a memorandum which we are giving to the British commenting on certain of the assumptions in the British paper.[6] It will be made clear to the British that our memorandum involves preliminary and technical comments on certain of the assumptions in the British paper and is in no sense a commitment of any kind.[7]

D MacA

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[5] Not printed. (Department of State, State–JCS Meetings: Lot 61 D 417)

[6] This memorandum was not found in the Department of State files, but Stewart discussed the assumptions in the British paper in his letter of June 6 to MacArthur, *infra.*

[7] Following Hoover's request relayed in a note from Fisher Howe of May 29, MacArthur called Anderson on May 29 to explain the situation as outlined in this memorandum. (Department of State, Central Files, 880.2553/5–2556) In a memorandum for the record, May 29, MacArthur wrote Anderson appreciated his call and agreed they should await the outcome of Stewart's study. (*Ibid.*, State–JCS Meetings: Lot 61 D 417) In a letter to MacArthur of May 29, Anderson wrote that Dulles had explained to him the previous week that the purpose of this material was to plan possible courses of action. Dulles also indicated, he felt that "the full development of the factual situation, as well as the estimates as to the probable results of several possible developments, might disclose a need for basic policy review toward the area in question." (*Ibid.*, Central Files, 880.2553/5–2956)

224. Letter From the Director of the Oil and Gas Division, Department of the Interior (Stewart), to the Counselor of the Department of State (MacArthur)[1]

Washington, June 6, 1956.

MY DEAR MR. MACARTHUR: With reference to the U.K. Middle East oil paper[2] discussed briefly in my letter to you of May 16, 1956,[3] the following brief discussion will highlight the principal steps and critical time elements that we believe must attend solutions of the problems indicated. I hope this will serve the immediate purposes of the Secretary of State in his study and concern with this important area. Certain problems will be common, although varying in degree, to all three cases presented in the U.K. paper:

(1) Serious disruption of vital ocean transport of oil.
(2) Cutbacks of available oil from Middle East sources.
(3) Emergency increases in production from Western Hemisphere sources.
(4) Significant additions to the dollar needs of the U.K./Western Europe, reaching critical proportions.
(5) A great increase in the cost of petroleum products to consumers within the U.S. resulting from incremental demands upon U.S. and other Western Hemisphere oil fields.

To cope effectively with the ocean shipping problem, an obvious first step would be prompt development and activation of a "Plan of Action" by the Foreign Petroleum Supply Committee.[4] To accomplish this under conditions that prevailed prior to the promulgation of amendments that became effective on May 8, 1956, would have required, in our judgment, a very short time, perhaps 2 to 4 weeks.

This estimate, however, cannot presently be relied upon because the amendments just mentioned have significantly changed the rules under which the Foreign Petroleum Supply Committee operates. Until this situation is clarified and new appointments of Committee representatives made, it must be assumed that more time would be required to initiate such actions.

In the meantime, however, operating companies doubtless would, each as a separate unit, reorient their operations so as to best serve their markets under difficult new circumstances. By these means significant progress could be made toward rerouting effective oil shipments, limited however by inability to fully integrate available sources and transportation without regard to specific ownership until a "Plan of Action" was effective.

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[1] Source: Department of State, State–JCS Meetings: Lot 61 D 417. Secret.
[2] Not printed. (*Ibid.*)
[3] Document 221.
[4] Regarding a plan of action, see Document 226.

Concurrently, steps could be taken to increase oil availability at tidewater from Western Hemisphere sources on an industry operating basis to minimize delay in picking up incremental emergency supplies.

It is our considered judgment and that of industry experts with whom we have consulted that such adjustments as are required by Cases A and B could be effected strictly from an operating standpoint to a point where an even flow of oil from substitute sources would be achieved within a 3-month period. During this interim, a continued receipt from loaded tankers at sea upon the outbreak of trouble could be expected for one or two weeks to supplement available stocks in consuming areas. Subsequently, a reduced flow would begin from supplemental sources and gradually increase in volume as the 3-month period lapses.

The measures outlined, assuming fully cooperative action by Governments and industry units involved could be expected, in our opinion, to meet the emergency pictured in Cases A and B. No attempt is made to appraise the initial stresses within the U.K./Western Europe consuming area. The probable severity of these may not be judged without a careful detailed study on the ground. The financial aspects would, we believe, present serious problems particularly with respect to increased cost to U.S. consumers and the balance of payments of the U.K./Western Hemisphere countries.

Case C involves the most severe conditions. It would result in serious shortages of oil supplies not only for U.K./Western Europe but for the Western Hemisphere as well. It would inevitably mean higher prices and much higher transportation costs. Secondarily, to accomplish optimum results restrictions would be necessary upon consumption of petroleum and controls upon prices. Authority for such measures under peace conditions does not exist. Hence, new laws would be needed to permit reasonable supplies to U.K./Western Europe and to prevent runaway prices.

Sincerely yours,

H.A. Stewart

225. Letter From the Director of the Office of Defense Mobilization (Flemming) to Senator Robert S. Kerr [1]

Washington, July 21, 1956.

DEAR SENATOR KERR: I appreciated the helpful comments in your letter of July 10, 1956, regarding the oil import situation. [2]

Your concern about whether oil imports are being restricted within limits necessary in the interest of national defense seems to coincide with my letter of June 26 to oil importing companies requesting a revision of *planned* imports for the third quarter of this year. [3]

The *actual* imports of crude oil into Districts I–IV during the first quarter of 1956 were 4.39 percent of domestic production; for the six months January–June, the corresponding ratio (partially estimated) is 4.97 percent. The corresponding annual ratio for 1954 was 4.65 percent. Imports of residual fuel oil have been in close conformity with the 1954 relationship to domestic production of crude oil.

On the basis of the information available on June 26, it appeared that, after maintaining a level of operations during the early part of the year in reasonably close conformity with the recommendations of the Advisory Committee, some companies had made plans which, if carried out, would have brought the volume of crude oil imports to a level "significantly" above the proportionate relationship to the domestic production of crude oil for 1954. For that reason, the Advisory Committee concluded that each importing company should be advised that reports would be expected in July indicating that individual voluntary action had been taken, with respect to planned imports for the third quarter, of such character as to constitute substantial conformity with the Advisory Committee's recommendation.

In connection with your concern about the volume of "crude oil and refined products" excluded from any restriction, I should like to call attention to the following points:

(1) The program of voluntary action recommended by the Presidential Advisory Committee has been concerned so far only with crude oil and residual fuel oil.

(2) Our efforts have been limited to the implementation of the recommendations of the Presidential Advisory Committee on Energy Supplies and Resources Policy of February 1955. The first paragraph of the Committee's recommendations dealing with crude and residu-

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[1] Source: Department of State, Central Files, 411.006/6–2156.

[2] Not printed. (*Ibid.*)

[3] Not printed. (*Ibid.*, 811.2553/6–2556)

al fuel oil is pertinent to the "exclusions" made in my letters to oil importing companies. It reads as follows:

> "An expanding domestic oil industry, plus a healthy oil industry in friendly countries which help to supply the U.S. market, constitute basically important elements in the kind of industrial strength which contributes most to a strong national defense. . . .[4] In this complex picture both domestic production and imports have important parts to play; neither should be sacrificed to the other."

It is believed that the special treatment of oil of Canadian and Venezuelan origin is consistent with that statement of view by the Advisory Committee and with the requirements of our National Security. The special treatment of imports into District V, as stated in the May 11 letter to oil importers, rests on the fact that there is no present indication of an increase in production in District V to meet the increasing demands in that area. The Presidential Advisory Committee has made it abundantly clear to oil importing companies that imports from Canada and Venezuela and imports into District V will be watched closely for any developments which might threaten to impair the National Security within the meaning of Section 7 of the Trade Agreements Extension Act of 1955.

(3) The re-examination now in progress of the Advisory Committee's formula relating to imports of crude and residual oils, initiated as a result of the May 11 recommendations, will provide opportunity for an evaluation of the evidence relating to the volume of imports and of the conclusions reached since February 1955. It should also provide a basis for such re-formulation of views as may appear desirable.

It seems clear that the objective which you desire is substantially in accord with the objective which the Presidential Advisory Committee on Energy Supplies and Resources Policy also desires to achieve. However, in our desire to achieve that objective we must make sure that we are not undermining some other aspect of our national policy. That is the reason for the special treatment for the time being of imports from Canada and Venezuela.

I feel that a national policy has been established that an unrestricted flow of imports into this country would impair the National Security. I do not believe that this Administration will deviate from such a policy. Methods of carrying it out may vary from time to time, but I feel sure that you can rely on the continuance of the basic policy.

I think you will agree that the letter of June 26 to oil importers indicates clearly that we are following up vigorously in an effort to achieve our objective on the basis of individual voluntary action by importing companies. You will be pleased to know that the replies so far received indicate a very satisfactory degree of cooperation with respect to planned imports for the third quarter of this year. If this approach does not bring about substantial conformity with the February 1955 recommendations of the Advisory Committee, I will proceed to initiate hearings under the provisions of Section 7 of the Trade Agreements Act.

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[4] Ellipsis in the source text.

I shall be very happy to hear from you at any time regarding this matter.

Sincerely yours,

Arthur S. Flemming[5]

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[5] Printed from a copy that bears this typed signature.

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226. Memorandum From the Counselor of the Department of State (MacArthur) to the Under Secretary of State (Hoover)[1]

Washington, July 27, 1956.

SUBJECT

Middle East Oil

MR. HOOVER: There is attached a communication addressed to me from Mr. H.A. Stewart, Director of the Oil and Gas Division of the Interior Department, relating to the procedures involved and the steps which should be taken in the event certain contingencies arise in the Middle East which affect the supply of Middle East petroleum.

The three contingencies are:

Case A: Loss or stoppage of the Levant pipelines;
Case B: Stoppage of the Suez Canal;
Case C: Loss of both A and B above.

In connection with the above three possibilities, you will recall that the following studies have already been made within this government:

1. Memorandum from the Oil and Gas Division of Interior dated March 30, 1956, subject: "Effects on the Free World Petroleum

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[1] Source: Department of State, Central Files, 880.2553/7–2756. Secret.

Economy Under Certain Assumed Conditions in the Middle East Area".[2]

2. A preliminary paper entitled "Middle East Oil Situation", dated May 3, and produced by the Economic Intelligence Committee's Ad Hoc Working Group on Middle East oil.[3]

3. The memorandum dated May 17[4] which Mr. Rountree transmitted to the British Embassy under a letter dated May 26.[5]

4. A table prepared by Interior on the tanker situation under these assumptions, which was given to representatives of the British Embassy by Mr. Beckner and Mr. Lott on June 15.[5]

It will be appreciated that the attached communication from Mr. Stewart deals largely with the mechanics of arranging to produce a plan of action to ensure the most efficient use of available oil, and shipping engaged in transporting it, and not with the actual plans themselves. I understand that planning involving actual quantities of oil and numbers of tankers at this stage would be of only limited value inasmuch as the plan, to be of value, must relate to current supplies, ships in position, loading schedules, and a variety of information of that character, which the committee proposed in the attached memorandum would be able to consider promptly.

You will note from the second paragraph on page 2 of Mr. Stewart's memo that currently the Foreign Supply Committee is being reorganized, and it is anticipated that a reconstituted committee will be in being in the near future. In view of the most recent developments with respect to the Middle East, and particularly the Suez Canal, it is for consideration whether we should not urge that the reconstituted committee be established just as soon as possible.[6]

It is also for consideration as to whether, when this committee is reestablished, it should not be requested immediately to undertake certain planning studies. This seems particularly desirable in view of the fact (pointed out in paragraph 2 of page 1 of Mr. Stewart's communication) that the Administrator, after determination of an emergency, must notify the Attorney General of his determination not less than ten days before making any request upon the committee to prepare a plan of action. Mr. Stewart's paper, which has been carefully gone over by the Legal staff of ODM as well as Interior indicates that before the committee can engage in actual planning, there must be a determination that emergency exists outside the US that requires action. Obviously, it would not be desirous, I think, for such a determination of emergency to be made publicly, but I do believe the present situation warrants such a determination, which presumably could be held confidential, so that actual planning by competent people composing the committee can proceed.

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[2] Attachment to Document 214.

[3] For the approved text of this paper, see Document 219.

[4] This memorandum from Rountree to Bailey was attached to a May 21 memorandum from MacArthur to Hoover. (Department of State, Central Files, 880.2553/5–2156)

[5] Not found in Department of State files.

[6] On July 26, Egyptian President Gamal Abdel Nassar announced he had nationalized the Suez Canal Company. For documentation on events following nationalization, see volume XVI.

Finally, you will recall that Mr. Dillon Anderson of the NSC expressed interest to you with respect to this problem. We undertook to get in touch with him in due course to let him know whether we believed any NSC or Planning Board actions might be necessary. Perhaps when you have considered the attached paper you would wish to let Mr. Anderson know your views with respect to this point.[7]

D MacA

[Attachment]

Letter From the Director of the Oil and Gas Division, Department of the Interior (Stewart), to the Counselor of the Department of State (MacArthur)[8]

Washington, July 27, 1956.

MY DEAR MR. MACARTHUR: As a supplement to our letter to you of June 6, 1956,[9] regarding Middle East oil problems, the following sets forth in greater detail the measures that the United States government would have to take to meet effectively the conditions assumed.

The alleviation of shortages arising from a substantial loss of any of the current sources of world petroleum supply would require cooperative action among domestic companies having foreign petroleum operations and foreign companies. A mechanism for such action exists in the Voluntary Agreement Relating to Foreign Petroleum Supply under Section 708 of the Defense Production Act of 1950.

Cases A, B, and C, appear to present situations in which action under the Voluntary Agreement would promote the national defense, and assuming that such a determination were made, the following steps would be required.

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[7] On July 28, Hoover sent Flemming this memorandum and the attached letter requesting that the file be held "close" and returned when Flemming had finished with it. Flemming returned it to Hoover under cover of a letter of August 23. (Department of State, Central Files, 880.2553/8–2356)

[8] Secret.

[9] Document 224.

1. The Administrator (Secretary of the Interior or Assistant Secretary, Interior–Mineral Resources) determines that an emergency exists outside the U.S. that requires action.

2. The Administrator notifies the Attorney General of this determination *not less than 10 days before making any request upon the Foreign Petroleum Supply Committee.*

3. The Director of the Voluntary Agreement then submits to the Foreign Petroleum Supply Committee a request to prepare a plan or plans of action.

4. The Committee prepares and submits in writing to the Administrator recommended plans of action.

5. The Administrator approves a "Plan of Action" and submits it to the Director of the Office of Defense Mobilization for approval in accord with Section 708 of the Defense Production Act of 1950. The Director of the Office of Defense Mobilization must consult with the Chairman of the Federal Trade Commission and the Attorney General and obtain the approval of the latter.

6. Upon approval of a Plan of Action by the Director of the Office of Defense Mobilization and the approval and issuance by the Administrator of schedules prepared by the Committee implementing the plan, action may be taken pursuant to such schedules.

As previously stated, we estimate that the process summarized above would take from 2 to 4 weeks. Currently the Foreign Petroleum Supply Committee is being reorganized in response to new rules promulgated by the Attorney General of the U.S. as amendments to the Voluntary Agreement under which the Committee operates. It is anticipated that a reconstituted Committee will be in being in the near future.

Operations under a Plan or Plans of Action would be designed to integrate to the extent necessary and appropriate the scheduling and movements of ocean tank ships under control of both U.S. and foreign companies into a unified operation, efficiently related to sources of incremental oil supply as available (or susceptible of rapid development) to offset oil that is denied its customary markets by emergency circumstances. Related adjustments to refining operations, crude oil production, and inland transport would be made by industry management in response to usual economic incentives. From an operations point of view, it is believed these measures might reasonably be expected to meet the principal problems posed by Cases A and B and initial stresses under Case C.

Attendant financial and foreign exchange problems, however, have not been studied because of the breadth and complexity of this field. Consideration might be given to a joint task group composed of British and United States people, or initially to a British group in recognition of the contribution they could make to knowledge of

Sterling–dollar capabilities. Such a study would suggest areas in which U.S. Government action might be considered desirable.

Conditions of Case C would require drastic action by the United States Government in the United States. It would undoubtedly create shortages of petroleum products for domestic use. This would force allocation of products, possible rationing, and might require price controls.

There is presently no authority to control prices. Authority does exist under Section 101 of the Defense Production Act to allocate materials in order to promote the national defense. Presumably Case C would present a situation which would justify a determination that the exercise of the priorities and allocation powers would serve such a purpose. These powers could be exercised to control the general distribution of petroleum products in the civilian market only after a finding by the Secretary of the Interior that the products to be allocated or rationed are scarce and critical materials essential to the national defense, and "that the requirements of the national defense for such material cannot otherwise be met without creating a significant dislocation of the normal distribution of such material in the civilian market to such a degree as to create an appreciable hardship," and the approval of such finding by the Director of the Office of Defense Mobilization.

Assuming that a determination was made that the use of the priority allocation powers was required for national defense, it would be necessary as a minimum to establish a headquarters organization of considerable size if any extensive use of the power to allocate was to be made. Such a central organization probably could be brought into being within a period of four to eight weeks. If it became necessary to institute rationing among consumers, a field organization would have to be created to administer such program. Such a field organization could hardly be established in less than four months.

Sincerely yours,

H.A. Stewart

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227. Editorial Note

On July 30, the Secretaries of State, Defense, Commerce, the Interior, the Treasury, the Directors of the Office of Defense Mobilization, the Central Intelligence Agency, and the International Cooperation Administration met to discuss the economic aspects of the Suez situation. They agreed that the Office of Defense Mobilization and the Department of the Interior should ask a few selected oil companies to meet with government representatives to initiate planning of emergency measures to assure continued supply of oil to Western Europe in event the Suez Canal was closed. Flemming and Seaton said they would request Brownell's clearance for this action and a waiver of the requirement that 10 days' notice be given prior to initiation of such planning. They agreed that this group would give urgent attention to the desired procedure for coordinating planning with the United Kingdom but that no publicity would be given to this planning for the present. On July 31, Hoover approved the July 30 memorandum of conversation summarizing this meeting. (Department of State, Central Files, 974.7301/7–3056)

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228. Letter From the Director of the Office of Defense Mobilization (Flemming) to the Secretary of the Interior (Seaton)[1]

Washington, July 31, 1956.

DEAR MR. SECRETARY: This letter has reference to the possibility that there may arise in the immediate future any of the three following contingencies relating to the availability of petroleum supplies affecting the defense mobilization interests or programs of the United States:

1. Loss or stoppage of the Levant pipelines.
2. Stoppage of the Suez Canal.
3. Loss of both 1 and 2 above.

As you know, a Committee has been established under the Voluntary Agreement Relating to Foreign Petroleum Supply, as amended, to advise the Government of the United States on plans of action designed to prevent, eliminate or alleviate shortages of petroleum supplies in friendly foreign nations which threaten to affect adversely the defense mobilization interests or programs of the United States.

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[1] Source: Department of State, Central Files, 811.2553/7–3156. Secret.

I have discussed the present situation and the above contingencies with the Secretary of State and the Under Secretary of State, and, as a result of these discussions, I believe that an emergency exists outside the United States which requires action in the form of the development of plans designed to prevent, eliminate or alleviate shortages of petroleum supplies which threaten to affect adversely the defense mobilization interests or programs of the United States. Under the circumstances I feel that it would be appropriate for you to find that an emergency exists and to submit to the Committee a request for the preparation of plans of action to meet such contingencies if they should arise.

As you know, the voluntary agreement requires that the Attorney General be notified of any request to the Committee to prepare a plan of action. On advice of counsel, I am of the opinion that such notification may be followed immediately by the request to the Committee for the preparation of the plans. If you have doubt as to the regularity of this procedure, I recommend that in the interest of prompt action the Attorney General be requested to waive his right to any earlier notification.[2]

If I can be of any assistance to you in this matter please so advise me. I should appreciate being informed of its progress.

Sincerely yours,

Arthur S. Flemming[3]

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[2] In a July 31 memorandum to Hoover, Don C. Bliss of the Office of the Deputy Under Secretary for Administration stated that Flemming and Wormser had consulted with the Attorney General and obtained his approval of the plan to reactivate the Foreign Petroleum Supply Committee (FPSC). The committee was composed of representatives of ODM, Interior, Treasury, State, and the oil industry. (*Ibid.*, 880.2553/7–3156) It met in New York on August 1 and again on August 10 when it prepared and approved a plan of action that called for the establishment of a Middle East Emergency Committee (MEEC) composed of representatives of American petroleum companies engaged in foreign operations. The FPSC, responsible for appraising the oil requirements of all countries of the West and coordinating supplies, storage facilities, and tankers, met regularly from August through October. After the Anglo-French invasion of Egypt on October 30, its meetings were temporarily suspended. (Memorandum of telephone conversation by William M. Johnson, November 6; *ibid.*, 800.2553/11–656)

The U.S. Senate held hearings in February 1957 on government and industry participation in emergency oil planning before and during the Suez Crisis. See U.S. Congress, Senate, *Joint Hearings before Subcommittees of the Committee on the Judiciary and the Committee on Interior and Insular Affairs*, 85th Congress, 1st Session (Washington, U.S. Government Printing Office, 1957), Parts 1–4.

[3] Printed from a copy that bears this typed signature.

229. Memorandum From the Officer in Charge of Economic Affairs in the Bureau of European Affairs (Moline) to Don C. Bliss of the Office of the Deputy Under Secretary of State for Administration [1]

Washington, August 14, 1956.

SUBJECT

Meeting of the Foreign Petroleum Supply Committee in Room 5001, Department of State, August 13

The subject meeting was held in the Department of State following the initiative of Dr. Arthur Flemming, Director of ODM, who had previously heard the Secretary discuss the question of nationalization and considered it a subject of considerable interest to American oil companies in view of their concern that Egypt's action on the Suez Canal would give additional impetus to Arab nationalization of oil production in the Middle East.

It was considered desirable, as a matter of form, to let the companies know about the Department's views on nationalization through the medium of a regular meeting of the FPSC rather than to call senior officials of the oil companies to the Department for the purpose of a briefing discussion with the Secretary. Consequently, the regular membership of the Committee was present. See the attached list for the names of companies and their representatives. Present also were Dr. Flemming, Assistant Secretary of Interior Wormser, Assistant Attorney General Hanson, in charge of the Anti-Trust Division, several members of the Oil and Gas Division of Interior and several members of the Department of State. These also are listed on the attachment.

The meeting was opened by Mr. Stewart who had the roll called by the Committee's Secretary. He then introduced Dr. Flemming. The latter explained that he had previously asked the Secretary if he would be willing to talk to the group regarding nationalization and that the meeting had been set up following the Secretary's agreement to do so.

The Secretary opened his remarks by stressing the seriousness of the Suez situation noting in particular the concern of all regarding the oil aspects of the problem. He mentioned his appreciation that a plan of action was being prepared noting that lack of alternatives in a given situation frequently left one awkwardly placed. He noted his own concern of several month's standing regarding the possible stoppage of transport from the Middle East and the breakdown of production in that area. The Secretary then referred to the nationalization of the Suez Canal Company and the possible ramifications of this action on oil interests in the Middle East. He assured the group that nothing would be done in London on nationalization which would jeopardize the oil concessions. There was no thought, he said, of acquiescing in any right of nationalization which would have unfavorable implications on the properties in which the companies had interests.

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[1] Source: Department of State, Central Files, 880.2553/8–1456. Confidential.

He called particular attention to the point in the London communiqué[2] in which the view was advanced as an extension of the present international law view on nationalization that it was not applicable to assets which were impressed with an international interest. He described this view as a major extension of the U.S. view on nationalization which, it was hoped, would extend the protection we could give U.S. interests and properties.

By way of explanation, he described the situation in which a government, on the basis of assurance, that for a fixed duration it would have access to specific commodities or facilities had accepted a dependence on another government or had based their economies on lines they would not have followed except for such assurances. In such cases, the country controlling the facility or property should be regarded estopped from nationalizing such facilities or properties. The Secretary said that there must be an abandonment of the right of nationalization in cases of this character.

The U.S. does not intend to concede the right of Egypt to terminate the concessions of the company twelve years ahead of time. However, merely to restore the status quo would not be a satisfactory solution in the circumstances. Expansion of the Canal was clearly needed. It was evident that there would not be a sufficient time in the remaining twelve years to finance the kind of improvements required. Also, something better than the present concession and convention was needed to prevent Egypt using force as her stopping of Israeli bound ships, showed she was clearly capable of doing.

Following the Secretary's presentations of his views and a short question and answer period relating to nationalization, Dr. Flemming spoke briefly of the assurances he had had from the Attorney General and his confidence that there would be no legal barriers to the kind of consultation and joint planning which the companies intended to do.

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[2] Reference is to the Tripartite Statement on the Nationalization of the Universal Suez Canal Company, issued at London by the Governments of the United States, the United Kingdom, and France on August 2, 1956. See Department of State *Bulletin*, August 13, 1956, pp. 262–263.

[Attachment]

1. Mr. Ballou, Standard Oil of California
2. Mr. Krug, Getty Oil Company
3. Mr. Bramstead, California Texas Oil Company
4. Mr. Hurley, Gulf Oil Corporation
5. Mr. McQuilkin, Standard Vacuum Oil Company
6. Mr. Ingraham, Socony Mobil Oil Company
7. Mr. Judd, Sinclair Oil Company
8. Mr. Dodge, Texas Oil Company
9. Mr. Coleman, Standard Oil Company (N.J.)
10. Mr. Hinton, Venezuela Petroleum Company
11. Mr. Duce, Aramco
12. Mr. Campbell, Creole Petroleum Company

1. Mr. Flemming, Director of ODM
2. Mr. Wormser, Assistant Secretary of Interior
3. Mr. Hanson, Assistant Attorney General, Dept. of Justice
4. Mr. Stewart [3]
5. Mr. Fentress
6. Mr. Lott
7. Mr. Fowler
8. Mr. Gately
9. Mr. Moline, State Department
10. Mr. Phleger, State Department
11. Mr. Hoover, State Department
12. And of course the Secretary for part of the meeting.

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[3] It was noted on the source text that Stewart, Fentress, Lott, Fowler, and Gately were from the Oil and Gas Division, Department of Justice.

230. Memorandum From the Chief of the International Resources Division (Nichols) to the Deputy Under Secretary of State for Economic Affairs (Prochnow)[1]

Washington, October 4, 1956.

SUBJECT

CFEP Meeting for October 3, 1956:[2] Commerce Proposal to Impose Restrictions on Licensing of Exports of Ferrous Scrap

1. Problem and Proposal

For at least the fourth time within a 12-month period Commerce has proposed to the CFEP that quotas be placed on the export of ferrous scrap. On the other occasions that this matter had been considered, the CFEP had turned down the Commerce proposals. The present Commerce proposal (Tab A)[3] calls for the immediate imposition of restrictions on the licensing of ferrous scrap exports to the level which the major scrap importing countries had earlier indicated would be their estimated requirements from the United States for calendar year 1956. (In this conclusion, Commerce listed the UK's estimated requirements at 500,000 tons while the British Embassy had earlier informed us that its requirements from the United States were 600,000 tons of ferrous scrap for 1956.)

2. Background Explanation

At the CFEP Staff Meeting of October 3, 1956, the Commerce representatives stated that the CFEP was being asked to approve the principle that export restrictions would be placed on ferrous scrap exports in calendar year 1957. The exact level of permissible scrap exports in that year was not yet determined, although it was clear that such exports would not exceed the 1956 level and would probably be considerably lower. It was agreed at the staff level that Commerce was requesting the CFEP to anticipate and to prejudge the conclusions of a study on the outlook for ferrous scrap in the United States before that study had been completed. It was also agreed that the ODM had been unable to determine in the absence of that study whether or not the future availability of the scrap supply in the United States would adversely affect this country's national security.

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[1] Source: Department of State, E–CFEP Files: Lot 61 D 282 A, Export of Ferrous Scrap and Semi-Finished Steel—CFEP 532. Confidential. Drafted by William H. Bray.

[2] The minutes of this meeting are in Eisenhower Library, CFEP Records.

[3] Not printed. This proposal is outlined in an October 3 memorandum from Weeks to Clarence B. Randall. A copy is in Department of Commerce Files, Office of the Secretary, Miscellaneous 1953–1961 (Weeks, Strauss, Mueller).

Commerce representatives stated that the primary reason for requesting an immediate CFEP decision on this matter was to enable Commerce to restrict the granting of export licenses so as to prevent the major foreign purchasers from placing speculative orders in the United States in anticipation of restrictive export quotas in calendar year 1957. Commerce also believed that the imposition of such licensing restrictions would put the foreign purchasers on notice that scrap exports would be curtailed by quota restrictions in 1957.

The Commerce representatives stated that since its last presentation to the CFEP no new facts had come to light regarding the availability of ferrous scrap supplies in the United States. About the only new interim developments were: (1) after the rise in steel prices following the strike settlement, the average price of number 1 composite scrap had risen from about $53 or $54 a ton in the spring of 1956 to about $57 a ton at present; (2) the Japanese had already obtained licenses for 2,035,000 tons, although they had stated their total requirements for calendar year 1956 would be 1,800,000 tons; and (3) certain domestic steel industry officials had recently made strong representations to the Secretaries of Commerce and of Treasury for the imposition of export quotas on ferrous scrap, primarily as a means of holding down the price of steel scrap and hence that of finished steel production in this country.

3. Recommendations: [4]

It is recommended that the Department oppose the Commerce proposal that the CFEP should at this time, prior to the completion of the study of steel scrap availability [5] and requirements in the United States (scheduled for January 31, 1957), agree that quotas will be placed on the export of ferrous scrap in calendar year 1957.

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[4] FE and EUR concurred in these recommendations.

[5] On May 31, the Council had considered a request from the Department of Commerce to establish, in the interest of national security, quotas on scrap, and had agreed (1) that strong representations should be made to importing countries that export controls would become necessary if they continued their imports of U.S. steel scrap at current levels; (2) that the DMB should determine the national security implications of the present level of scrap exports; and (3) that the studies being made by the Department of Commerce of U.S. reserves of steel scrap should be expedited. The DMB notified the CFEP on June 26 that it could not determine the national security implications of the present level of scrap exports until the studies being made by Commerce had been concluded. These studies were completed by the Department of Commerce on January 31, 1957.

It is also recommended that the Department oppose the Commerce proposal that restrictions should be placed on the licensing of exports of ferrous scrap during the last quarter of calendar year 1956, primarily because (a) it is doubtful whether the major foreign scrap purchasers in the United States would engage in speculative buying during the next four months and thereby jeopardize their scrap supply in the United States in later periods and (b) if such speculative purchasing should occur, Commerce could amend by administrative action the terms and conditions on which it issued licenses, for example, shipments would have to be made within 30 days after issuance rather than 90 days at present and the number and amount of unused licenses held by scrap importers could be limited.

If restrictions on the issuance of licenses during the last quarter of 1956 should be approved by the CFEP, consideration should be given to the exemption of exports to Canada and Mexico, primarily because the economy of those countries is closely associated with the United States, particularly in time of emergency mobilization. Also, the quota for the United Kingdom should be raised to the level of its stated requirements, that of 600,000 tons. [6]

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[6] On February 8, 1957, the Department of Commerce temporarily suspended licensing of exports of iron and steel scrap to Japan, the European Coal and Steel Community, and the United Kingdom pending a review of U.S. policy on scrap exports. On April 30, 1957, the Council agreed to a proposal by the Department of Commerce to suspend the processing of 1957 export license applications for heavy melting scrap to Japan, the Coal and Steel Community, and the United Kingdom, when licensing reached the level of 1956 shipments to each of these areas. By June 30, 1957, the United Kingdom, Japan, and the European Coal and Steel Community had voluntarily agreed to limit their imports of heavy melting grade steel scrap from the United States for 1957 to an increase of 13 percent over their imports for 1956. (Eisenhower Library, CFEP Records, Status Reports for 1957) Additional documentation on the export of steel scrap is in Eisenhower Library, CFEP Records.

231. Letter From the Director of the Office of Defense Mobilization (Flemming) to the Oil Importing Companies[1]

Washington, October 17, 1956.

I

On February 26, 1955, the Presidential Advisory Committee on Energy Supplies and Resources Policy issued a report in which it stated its conclusion that if the imports of crude oils should exceed significantly the proportion that these imports bore to the production of domestic crude oil in 1954, the domestic fuel situation could be so impaired as to endanger the orderly industrial growth which affects the military and civilian supplies and reserves that are necessary to the national defense.

In this report the Committee also recommended that the desirable proportionate relationships between imports and domestic production be reviewed from time to time in the light of industrial expansion and changing economic and national defense requirements.

A short time ago the Advisory Committee decided to initiate a review of the question of the desirable proportionate relationships between imports and domestic production. The Committee requested the members of the task force who participated in the development of the February 1955 report to assist in making this review. The members of the task force are: James F. Brownlee of J. H. Whitney & Co., J. Ed Warren of the First National City Bank of New York, Charles J. Potter of Rochester and Pittsburgh Coal Company, and Judge Robert N. Wilkin, U.S. Court House, Washington, D.C. The task force had the benefit of assistance from a group of consultants representing all aspects of the oil producing industry.

The members of the task force have looked at the problem in the light of industrial expansion and current information relative to economic and national defense requirements. They have met on two occasions with the members of the Advisory Committee and have given the members of the Committee the benefit of their views.

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[1] Source: Department of State, Central Files, 811.2553/10–1756. The letter had been revised and finally approved by officials in the Fuels Division of the Office of International Trade and Resources in the Bureau of Economic Affairs and by members of the Presidential Advisory Committee on Energy Supplies and Resources Policy.

II

As a result of these deliberations, the Presidential Advisory Committee has decided to make the following recommendations:

1. *The imports of non-Canadian and non-Venezuelan crude oil into Districts I–IV should not exceed significantly during any quarter of the year 1957 the proportion that these imports bore to the production of domestic crude oil in those Districts in 1954.*

Unless the objective is realized there will be in the period immediately ahead an impairment of our national security position because there will be an inadequate incentive for exploration and the discovery of new sources of supply.

The Committee believes that the deviation from the above policy reflected in the import programs announced for the third and fourth quarters of 1956 would constitute, if continued into 1957, a threat to our national security.

2. *Imports from Canada and Venezuela, although not included in Recommendation No. 1, should continue to be kept under close surveillance.*

The Committee understands that in accordance with the close cooperation which has existed with Venezuela in the past, appropriate action will be taken to bring about a scheduling of exports from that country into Districts I–IV throughout 1957 consistent with the objective being sought. The Committee appreciates the fact that such action will be taken.

3. *The present policy of excluding imports into District V from consideration in determining the question of conformity with Recommendation No. 1 should be continued.*

This practice should be followed for the present in order to permit desirable flexibility as the industry effects adjustments made necessary by the transition from a surplus to a deficit producing area. Periodic review of the situation in the area should be made, however, during the course of any one year to determine whether it would be appropriate to include District V within the policies set forth for Districts I–IV. It is clear that the ends of national security would not be served by suggesting restrictions on imports into this area at this time. It should be pointed out, however, that from a national security point of view, emphasis should be placed on imports into District V from Western Hemisphere sources. To this end, appropriate arrangements should be made as rapidly as possible.

4. *The imports of residual fuel oil at present or expected levels do not require the establishment by the Government of standards for the guidance of importing companies.*

The Committee believes, however, that this matter should be reviewed at periodic intervals during the course of any one year to determine whether or not the situation has changed to such an extent as to make it desirable for the Government, in the interest of national security, to recommend some standards covering imports of residual fuel oil, if the imports exceed significantly the amounts required to supplement domestic supply of residual oil or impair the production of other fuels required for national defense.

III

If the objectives that the Committee has set forth in this report relative to the importation of crude oil are to be achieved, it will be necessary, taking into account the adjustment that is to be made in Venezuelan imports, for all oil importers to reduce, on an individual voluntary basis, their average level of imports in each quarter during 1957 of non-Canadian and non-Venezuelan crude oil into Districts I–IV by 1 percent under their average level of imports for the period of January to June 1956. This determination takes into account the anticipated increase of 5 percent in domestic production of crude oil in 1957, as estimated by the Department of the Interior.

The Committee recognizes that it may be possible to devise methods for reaching the objectives set forth in this report which, for example, would deal more satisfactorily with the problem of how the new importers can be provided with a share in the over-all import relationship. It has suggested, therefore, to the Director of the Office of Defense Mobilization that he invite, in connection with the public hearings that are to be held on the oil import problem beginning on October 22, interested parties to propose any methods which, in their judgment, would help to achieve the objectives set forth by the Committee in this report. The Committee will then give these presentations careful consideration following the hearing and decide whether or not such suggestions should be adopted.[2]

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[2] Printed from an unsigned copy.

232. Memorandum of Discussion at the 303d Meeting of the National Security Council, Washington, November 8, 1956[1]

[Here follows a paragraph listing the participants at the meeting.]

1. European Oil Supply Position in View of Developments in the Near East

Upon taking his place at the table, the President informed the Council that the first item on the agenda was a discussion of the European oil supply position. Mr. Robert B. Anderson, former Deputy Secretary of Defense, would make a report to the Council, but wished to leave the meeting after this subject had been discussed.

Mr. Anderson stated that he would discuss three major aspects of the subject, beginning with an analysis of the precise oil supply situation as of today. He informed the Council that the Suez Canal was now thoroughly blocked by at least eight or nine ships which had been sunk in it.[2] The Iraq pipeline had been sabotaged and three of its pumping stations destroyed. The Aramco tapline was still intact, but it was touch-and-go as to how long it would remain in operation. In the light of these developments, Mr. Anderson said that our first requirement will be for 350,000 barrels of oil a day to be delivered from the Gulf Coast to the East Coast of the United States. In addition, there will be a requirement of 450,000 barrels daily from Venezuela and from our Gulf Coast for Europe. Only approximately 700,000 barrels of oil a day can be generated from the Gulf Coast. With maximum use of all free world shipping, perhaps 800,000 barrels of oil can move each day from the Middle East around the Cape to Europe. Even if all these potentialities are realized, Europe would still be faced with a deficit of between 10 and 15% of its requirements. On the other hand, if we lost control of the Aramco tapline or fail to secure oil from the Middle East in the amounts mentioned above via the Cape route, the deficit in Europe would increase rapidly above the 10 to 15% level.

Mr. Anderson, who had been working with the oil companies, then informed the Council of the availability of crude and refined products in Europe at the present time. There was approximately two weeks' crude supply, and approximately a month to six weeks' supply of refined products on hand. The American oil companies estimate that it will take something between six months and a year to rehabilitate the Iraq petroleum company's pipeline, including the destroyed pumping stations. The British believe that this task can be accomplished sooner.

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on November 9.

[2] On October 29, Israel invaded the Sinai and on October 30, Anglo-French forces bombarded Egyptian installations. Passage through the Suez Canal was blocked on November 1 when the British sank the Egyptian ship *Akka* and that same day, Egypt broke diplomatic relations with the United Kingdom and France. On November 3, sabotage closed the Iraq Petroleum Company pipelines from Iraq to the Mediterranean.

The second major aspect of Mr. Anderson's report concerned the dollar problem. If the European nations were to secure oil from the United States and Venezuela to make up the deficit, this will require the generation of dollars. Prices for crude oil are rising rapidly, but not as rapidly as prices for shipping oil in tankers.

Mr. Anderson then reminded the Council that some months ago the Middle East Emergency Committee of industry personnel had been set up under the Office of Defense Mobilization, to make plans for the control of shipment of oil from the Gulf Coast to Europe in the event of an interruption of normal Middle Eastern supplies. There were British and French counterparts to the Middle East Emergency Committee. Mr. Anderson added that the Organization for European Economic Cooperation (OEEC), composed of seventeen European countries, had recently met and made the following four recommendations to the seventeen member governments:

1. A recommendation for equitable sharing of shortages among the European countries.
2. A recommendation for the equitable distribution of such petroleum supplies as were on hand at a given time.
3. A recommendation that rationing machinery be set up in each of the member countries.
4. A recommendation that each country establish a petroleum advisory committee to advise each government on the relevant problems.

Mr. Anderson then informed the Council that differences of opinion existed among the heads of our American oil companies with respect to the best means of dealing with the present crisis. Many believed that the United States Government should not act in the matter of assisting to get oil to the European countries until the situation in the Suez Canal had been clarified. Others were concerned that U.S. Government participation in getting oil to Europe would be regarded by the Arab nations as tantamount to U.S. support for aggression against Egypt. To make matters worse, as of yesterday the Government of Saudi Arabia had prohibited the offloading of any ships with oil destined for the United Kingdom or for France. This government was also planning other measures with respect to Bahrein Island, which was under a British mandate. Accordingly, Mr. Anderson pointed out that if we now proceeded to implement the program developed by the Middle East Emergency

Committee, such action would be regarded by the Arabs as U.S. participation in the aggression against them. While there was little doubt that we could get oil to Great Britain and France by the simple collaboration of the American oil companies without invoking the program outlined by the Middle East Emergency Committee, this course of action might invite difficulties under the existing anti-trust laws of the United States. In essence, said Mr. Anderson, this constituted the issue which the Council would have to consider.[3]

The President first inquired whether any oil could be got from Sumatra or elsewhere in Indonesia. Mr. Anderson replied that some oil was produced from Sumatra, but most of the 350,000 barrels a day which landed on our Pacific Coast came from the Middle East.

The President then asked Mr. Anderson whether he could take any action to increase U.S. oil production for a period of six months, making it perfectly clear that there would be a cut-back after this interval. Or, asked the President, would the independent oil companies make a terrible fuss when the cut-back was instituted at the end of the six-months period? Mr. Anderson replied that this would be very difficult indeed to do, and suggested that it would be better for the oil companies, rather than the Government, to call for an increase in U.S. production.

The Vice President inquired how the oil companies were in a position to make a significant increase in oil production in as short a time as six months. Mr. Anderson replied that in point of fact the increase could be achieved very promptly. The President agreed, but wondered whether, if this were done and the price of oil rose, there wasn't danger that the stripper wells would come back into production. Mr. Anderson answered that in any event we could anticipate that the independent oil operators would charge that the Government always bailed out the big companies whenever they got into trouble. Moreover, he added, the independents would be airing this complaint at a time when the Congress would be in session.

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[3] MacArthur met on November 4 with Flemming, Wilson, Seaton, Hoover, Adams, Goodpaster, and several others. It was decided that no initiative should be taken to activate the Middle East Emergency Committee despite the sabotage of three Iraq Petroleum pumping stations in Syria on November 3. MacArthur wrote in part: "The main objection to taking initiative today was that since it would entail close cooperation with the British and French, our moral position might be impaired at a most critical moment and great damage done to our present position, particularly with the Asian and African countries. Furthermore, it was felt that one of the best cards we had to bring the British and French to take a constructive position was the way we handled the oil matter. If we rushed into cooperation with them, we would be perhaps giving away a vital card. The chairman summed it up by saying he understood the consensus of the matter to be that we should play hard-to-get and let the initiative come from the European countries." (Department of State, Central Files, 840.04/11–455)

The President suggested that what Mr. Anderson was looking for was some means by which to secure an increase promptly in U.S. oil production without at the same time getting the United States in a position, in the eyes of the Arab world, of bailing out the British and the French. Mr. Anderson agreed, and said that the real question was simply whether we invoke the program drawn up by the Middle East Emergency Committee or not. The President stated that as he saw it, just as soon as a cease-fire was achieved in Egypt the Arab states will all be eager to sell their oil again, since this was the main source of their revenues. The President then inquired whether anyone else around the Council table had any different ideas to contribute.

Secretary Wilson observed that no matter what happened there was bound to be an oil shortage of some months' duration in Western Europe. It was his suggestion that we set about ensuring increased production of oil in the United States without immediately disclosing what we propose to do to assist Great Britain and France.

Mr. Anderson prophesied that the rationing of petroleum may soon be required in Great Britain. Both the British and the French are extremely anxious to know what the United States proposes to do. If we do not inform them, the British and French may insist on holding on to every bit of oil available to them, and permit the shipment of none of this oil to other European nations to whom they normally would make such shipments. The President wondered whether it would not be possible to ensure the shipment of necessary oil to the neutral nations of Western Europe (excluding Great Britain and France) without arousing the wrath of the Arabs. Mr. Anderson replied that this would be very difficult because most of the other European nations do not have sufficient facilities to receive and store large amounts of petroleum at any one time.

Secretary Hoover commented that the Department of State had a very vital concern in this whole problem. In fact, hours and days are vital in getting this operation started. Even if we begin to increase U.S. oil production right now, it will still be very difficult to move that oil earlier than a period of fifteen to thirty days. Secretary Hoover predicted that there was going to be harsh rationing in Europe, which was bound to give rise to extreme anti-American feeling there on the ground that we will not seem to have done what is plainly in the vital interests of Western Europe.

The President interposed the observation that anything that succeeds in stopping the present hostilities in the Near East was very much in the vital interests of Great Britain and France. In reply, Secretary Hoover pointed out that the British and French have agreed to get out of Egypt as soon as the UN police forces move in. Moreover, the United States is ready, as Ambassador Lodge had stated in the UN, to transport the UN police forces to Egypt. Accordingly, it was absolutely crucial, in Secretary Hoover's opinion, to get the necessary increase in U.S. oil production. He then advocated use of the OEEC machinery just as soon as possible. Use of the OEEC machinery would, he believed, avoid the appearance that the United States was focusing attention on oil supplies solely for Britain and France. Furthermore, it should be possible for us to go to King Saud and promise him that none of his oil would go to France or Great Britain and that no British or French ships would go into his ports. In conclusion, Secretary Hoover again suggested that operations start immediately.

Dr. Flemming informed the Council that if the program devised by the Middle East Emergency Committee should now go into operation, it will operate under the approval of the Secretary of the Interior. Accordingly, the U.S. Government would be provided with an opportunity to control the schedules of shipments. We could, furthermore, use the OEEC machinery to guide us in making decisions as to the appropriate distribution of oil going to Europe.

Secretary Humphrey agreed with Dr. Flemming, but warned that we could not start this kind of operation without clearly indicating that the United States was right in the middle of it. Accordingly, Secretary Humphrey said, he was opposed to doing anything more than taking the steps which Mr. Anderson had earlier suggested. Mr. Anderson pointed out that the United States and Canada were, so to speak, associate members of OEEC. Any way you looked at it, he went on, there was bound to be a shortage of oil in Western Europe. The real question, therefore, was whether we prefer to let this shortage increase over a period of time, or immediately involve the United States Government in the problem by putting into action the program devised by the Middle East Emergency Committee.

The President reiterated his point that the vital problem now was to induce Egypt to agree to a cease-fire. To do this will be much more difficult if we presently announce that we are going to get oil to Great Britain and France. While this was very hard on the State Department, it was true just the same. Secretary Hoover replied that we had just sent a message to President Nasser through Dag

Hammerskjöld last evening, a message which we do not believe Nasser is in a position to turn down.[4] Accordingly, we believe that we will have the Egyptian situation under control within the next 24 to 36 hours. In view of this, Secretary Hoover stated his belief that the program of the Middle East Emergency Committee should now be predicated on the likelihood of immediate success for the UN action.

Secretary Wilson took a different position, and recommended against any move involving the U.S. Government which would impair this Government's bargaining position at the present moment. Secretary Humphrey agreed with Secretary Wilson, who went on to state that the situation should be left alone for a little while. He warned that the British and French will soon be urging that the United States ration petroleum supplies as only fair if these countries have to resort to rationing. This would cause a lot of trouble for this Government.

Secretary Humphrey said he was sure that the committee of private oil industry people would secure greater efficiency in the matter of shipping oil. On the other hand, he believed that the most unfortunate aspect of this whole crisis was the clarity with which it pointed to a serious lack in the logistics system of the Western powers. It indicates to the Arabs what a singularly strong position they are in by virtue of their control of so much oil in the world. Accordingly, the United States would have to do what it could for Europe in the near future, but not at the present moment; that is, not until the British and French Governments have got back into a position of compliance with the directives of the United Nations.

The President pointed out that if we really get the Arabs sore at all of us, they could embargo all oil, which would ruin our present Middle East Emergency Committee plan which still counts on some 800,000 barrels of oil daily from Middle East sources. Mr. Anderson agreed, and said that furthermore, if the Arabs got sore enough, we could also lose what we are now getting from the Aramco tapline. Mr. Anderson thought it would not be amiss if the State Department talked to Ibn Saud and asked him to what countries he was willing that his oil be sent. After all, Saud is, in a certain sense, cutting off his nose to spite his face when he threatens to cut off oil presently going to Bahrein. The British and French get very little of their oil from Bahrein Island. Secretary Hoover commented that he had received another useful suggestion from Mr. Anderson, namely, that if our European friends come here to Washington in the next ten days, we should invite King Ibn Saud to visit us after their departure. The President expressed approval of this proposal, and pointed out philosophically that the way of the peacemaker is proverbially hard. For this reason he believed that the first thing to do is to try to avoid aggravating either side in the controversy any further. If all of this was an hour-by-hour proposition, the President believed we would be best advised to let our Middle East Emergency Committee study further action. With a smile, the President added that despite his stiff-necked Attorney General, he could give the industry members a certification that what they were planning and doing was in the interests of the national security. This might assist them with respect to any involvement with the anti-trust laws.

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[4] No copy of this message has been found in the Department of State files. During a conversation with W. Park Armstrong and Henry Cabot Lodge on November 7, however, Hammarskjöld stated that he had that evening sent a message to Nasser concerning the U.N. force.

The President asked Secretary Humphrey if he had any objections to such a course of action. Secretary Humphrey replied in the affirmative, and said that he would prefer to see us do only what Mr. Anderson had earlier suggested, namely, to open up our coastwise shipment of oil to all foreign-flag vessels and to undertake to increase oil production in the Gulf area. For the time being, however, he would oppose programming oil shipments to Europe. The Emergency Committee's program could be got in readiness to move just as soon as the gong sounded and the British and French evidenced compliance with the orders of the United Nations.

Secretary Hoover stressed the matter of timing, and said our decision would have to be based primarily on a feel for public relations; that is, on when this Government believed it could move with due regard to Arab opinion on the one hand and the British and French viewpoint on the other.

Dr. Flemming stated that he would put the machinery into operation. He pointed out that foreign-flag tankers could then carry oil from the Gulf Coast to the East Coast. Thereafter, when the UN police force has been installed in Egypt, we will go on from this point to effectuate the program of the Middle East Emergency Committee. Dr. Flemming followed up his proposal with a statement of the crude oil inventory of the chief Western European nations.

Secretary Wilson warned that we must avoid thinking that we can deal with the Arabs as we would deal with businessmen. The Arabs are moved by emotion and not by the judgments of businessmen.

Secretary Humphrey pointed out, with respect to the money and dollar aspect of Mr. Anderson's earlier report, that the French have already come over here some three weeks ago and have arranged with the International Monetary Fund to pull out all their gold and dollars. They have already drawn on these to the limit. Overtures from the British suggest that they will presently follow the French example. To Secretary Humphrey it seemed clear that if the United Kingdom did not look out, it would bust itself to a point of bankruptcy and of no return.

The President remarked with a sigh that he wished we could have a complete history of this cabal in which the British and the French were involved. A step-by-step analysis of what they had done would be very illuminating. . . .

Secretary Hoover commented that the Anglo-French cabal had not only "kidded" the United States; it had also kidded the nations of the British Commonwealth and, to some extent, the British public too. . . . The President agreed, and stated that this Government officially should keep out of the oil supply problem until we were assured that the cease-fire was in effect.

Mr. Anderson said that he felt compelled to state that it was difficult to encourage the oil companies to do their best, in view of their great anxiety about violation of the anti-trust laws if they followed a course that we suggested was in the national security interest. The President said with a smile that if the heads of these oil companies landed up in jail or had to pay a big fine, he would pardon them (laughter).

The Attorney General said that at the very least we owed it to these people to have a representative of the United States Government work with them. Mr. Anderson warned that he was not an official of the U.S. Government. To this the Attorney General replied that it would then be necessary to have a representative of the Department of the Interior work with the committee. We owed this, in all fairness, to the committee. The President said that this was OK with him, and asked that ODM or Interior make the necessary arrangements.

The National Security Council: [5]

a. Discussed the subject and possible U.S. actions related thereto, in the light of an oral report by Mr. Robert B. Anderson.

b. Noted the President's approval of the following courses of action:

(1) Authorize the movement of U.S. Gulf Coast oil to the U.S. East Coast in foreign-flag tankers.

(2) When a cease-fire has been arranged in Egypt and when the UN police force is functioning in Egypt, consider putting into operation the plan of action of the Middle East Emergency Committee.

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[5] Paragraphs a–b that follow constitute NSC Action No. 1629. (Department of State, S/S–NSC Miscellaneous Files: Lot 66 D 95, Records of Action by the National Security Council, 1956)

Note: The action in b above, as approved by the President, subsequently transmitted to the Director, Office of Defense Mobilization, for appropriate implementation.

[Here follows discussion of the remaining agenda items.]

S. Everett Gleason

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233. Memorandum of Discussion at the 304th Meeting of the National Security Council, Washington, November 15, 1956 [1]

[Here follows a paragraph listing the participants at the meeting.]

1. Significant World Developments Affecting U.S. Security

[Here follows discussion of unrelated subjects.]

At the conclusion of Secretary Hoover's report, Mr. Jackson indicated that Dr. Flemming would report briefly on the oil situation in Europe.

Dr. Flemming said that after last week's discussion of this problem in the National Security Council, he and Mr. Robert Anderson (former Deputy Secretary of Defense) had conferred at once with the presidents of the major oil companies. They had explained to these presidents our policies in this area, and the presidents had expressed themselves as in accord with our decisions. They favored at a later date pooling their shipping resources, which they regard as much more efficient than the individual action of each oil company, as was now the case.

Dr. Flemming added that in this discussion it had been agreed that the time had not yet come to put into operation the plans for supplying oil to Europe drawn up by the Middle East Emergency Committee. Nevertheless, Dr. Flemming recommended that the basic data on the oil situation available to the Committee should be brought up to date. There had been nothing new added in the last couple of weeks. This basic data, as to the problem of getting oil to Europe, could be obtained quietly and indirectly from the British and French through the agency of the Organization for European

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Prepared by Gleason on November 16.

Economic Cooperation (OEEC). Once we have this additional basic data, Dr. Flemming indicated, we would be able to move very quickly when the time came to put the Middle East Emergency Committee plan into effect. It should also be possible to sound out the Saudi Arabians on their reaction to our effort to supply oil to Europe.

Secretary Hoover stated that it would be impossible for a few days to sound out the Saudi Arabian attitude, because King Saud was momentarily out of his country. Secretary Hoover then described a story printed in last night's Washington *Star*, alleging that the United States Government was actually withholding oil supplies from Great Britain and France in order to force them to comply with the decisions of the United Nations. This erroneous story, said Secretary Hoover, would have the most unfortunate effect when it became known in Europe, as it certainly would. The European nations would all descend on us to blame us for their shortages. For this reason, if for no other, this Government, said Secretary Hoover, has got to move into the European oil situation in a short time, not later than a day or two.

The President said that he had thought we had already determined to let Venezuelan oil go to Europe. Secretary Hoover replied that while this was so, the problem was the availability of tankers to get the Venezuelan oil to Europe, and that, of course, if the companies attempted to pool their ships, they would run afoul of the antitrust law. The President made a jocular reference to his "stiff-necked" Attorney General, and after Secretary Hoover had insisted that we would have to organize the pooling of tankers along the lines suggested by the Middle East Emergency Committee plan, the President again offered to make a public statement which might help the oil companies by declaring that their pooling activities were the result of a serious emergency situation.

The Attorney General reassured the President that the Department of Justice already had a plan of action in this situation which could be put into effect as soon as the State Department told him to do so. Dr. Flemming confirmed this statement, and added that the Department of Justice was showing admirable cooperation. He explained that he was really not much worried about the legal angle. The President observed that we must certainly use every legal recourse to meet the situation. Above all, we want to increase the flow of oil from the Gulf Coast to our own East Coast, so that more Venezuelan oil can go directly to Europe. Dr. Flemming informed the President that this was already being done.

There then ensued a discussion of the problem of pooling tankers. Secretary Humphrey elucidated the dilemma. If the oil companies pooled their tankers and this fact became known, the

Arabs could be expected to cut off further oil supplies. Accordingly, we might be worse off than as though there had been no pooling. Despite the gain in efficiency by pooling the tankers, Secretary Humphrey therefore opposed such a move at the present time. Dr. Flemming expressed the opinion that if the oil companies did pool their tankers, it would be impossible to disguise the fact that such a move had been suggested by the U.S. Government.

The President said it was his conclusion that it was best to go along with the recommendations made by Dr. Flemming earlier in the discussion, namely, to get the basic data available to the Middle East Emergency Committee up to date, and to find out what the Saudi Arabians would do if they were to learn that we proposed to ship oil to Europe under the terms of the Middle East Emergency Committee plan.

Admiral Radford pointed out that the Russians were already supplying oil to Egypt and were in general moving into the situation there. He warned that we may have to move ourselves very promptly, not only in Egypt but in Syria.

Dr. Flemming inquired whether the consensus of the Council could be summed up in the following terms: First, that we would proceed to bring our basic data for the Middle East Emergency Committee up to date; and second, ask the State Department to sound out the Saudi Arabians on their reaction to our plans, before any action is taken by us.

The discussion closed with a new expression of great anxiety over Britain's financial and economic situation from Secretary Humphrey.

The National Security Council: [2]

a. Noted and discussed an oral briefing by the Director of Central Intelligence on the subject, with specific reference to developments concerning Hungary and Poland; the situation in the Near East; the impact upon Asia of the foregoing events; and the situation in Korea.

b. Noted and discussed an oral report by the Acting Secretary of State regarding UN action on the Hungarian situation, and conclusions to be drawn as a result of recent events in the Near East.

c. Noted and discussed an oral report by the Director, Office of Defense Mobilization, on developments affecting the European oil supply position.

d. Noted the President's authorization to the Department of State:

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[2] Paragraphs a–d that follow constitute NSC Action No. 1632. (Department of State, S/S–NSC (Miscellaneous) Files: Lot 66 D 95, Records of Action by the National Security Council, 1956)

(1) To attempt to obtain recent data on the European oil supply position through the Organization for European Economic Cooperation (OEEC).

(2) To explore discreetly probable reaction of Arab oil-producing states if the United States were to put into operation the plan of action of the Middle East Emergency Committee.

Note: The action in d above, as approved by the President, subsequently transmitted to the Secretary of State for appropriate implementation.

[Here follows discussion of the remaining agenda items.]

S. Everett Gleason

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234. Editorial Note

In mid-November 1956, officials in both the French and British Governments stressed that the oil situation in their countries as a result of the blockage of the Suez Canal and the closure of the Iraq Petroleum Company pipelines was extremely serious. They argued that failure by the United States and other countries to take measures to supply Western Europe with the oil it needed in the coming months would precipitate grave social, political, and economic repercussions. (Memorandum of conversation by Tyler, November 17, relating his conversation with the French Ambassador; for text, see volume XIII, page 605) They claimed that by the middle of the month, their supplies of oil had dropped 25 to 30 percent below their normal needs. (Telegram 2810 from London, November 19, and telegram 2474 from Paris, November 19; both in Department of State, Central Files, 840.04/11–1956) Moreover, they charged that American hesitancy to cooperate with them in meeting their oil deficit was a means of putting pressure on the two governments to withdraw their forces from Egypt as well as an imposition of needless hardship on their countries. (Telegram 2496 from Paris, November 20; *ibid.*, 840.04/11–2056; telegram 2597 from Paris, November 26; *ibid.*, 840.04/11–2656)

Until the end of the month, the United States Government remained unwilling to ease the oil shortage in Europe by activating the plan of action prepared by the Middle East Emergency Committee for two reasons. One reason was not to give any impression of supporting British and French action against Egypt, especially as such an impression would have impaired the position of the United States in the United Nations. Another was to avoid any impression that could have led Arab oil-producing States eitner to sabotage additional facilities or impose additional restrictions on the use of oil. (Circular telegram 411, November 17; *ibid.*, 840.04/11–1756) Throughout the month, however, the United States Government continued to assure Great Britain and France that the United States was willing to supply oil to Europe if those two countries complied with the United Nations resolutions on the Suez crisis and withdrew their forces from Egypt. (Message from Eisenhower to Eden, November 11; *ibid.*, 974.7301/11–1156; telegram 2620 from Paris, November 27; *ibid.*, 840.04/11–2756) The United States Government also urged American and European oil suppliers to cooperate through the Organization for European Economic Cooperation to achieve the maximum possible efficiency of supply and an equitable sharing of shortages.

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235. Letter From Acting Secretary of State Hoover to the British Ambassador (Caccia)[1]

Washington, November 17, 1956.

My Dear Mr. Ambassador: In your letter of November 10[2] you refer to the decisions taken in the meeting of the OEEC Oil Committee at its meeting last Friday. As you surmise, we have had reports from our representatives who attended the meeting. Their report coincides with yours on the three points you mentioned, namely, agreement to recommend to member governments that consumption of oil in Europe be reduced immediately by 10 percent; agreement that national industry committees would furnish stock and future supply data to the Oil Emergency (London) Advisory Committee; and the desire of consuming countries in Europe to see more active American participation in planning to cope with the prospective oil problem.

We believe the steps which the European countries have decided to take in the matter of reducing consumption and evaluating the present situation are both prudent and warranted in the circumstances. We have noted the view expressed in the OEEC Oil Committee regarding United States participation in the planning to cope with the situation.

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[1] Source: Department of State, Central Files, 840.04/11–1056. Secret. Drafted by Moline on November 13.

[2] Not printed. (*Ibid.*)

When I spoke to you recently regarding the ability of oil companies individually to solve the problems they face in continuing supplies to Europe with the Suez Canal closed I did not of course mean to suggest that their efforts would be equally as efficient whether or not coordinated. I am certain, however, that the companies individually will be highly effective in devising measures to cope with the problems they face. The lesser efficiency of the uncoordinated effort seems to me preferable to a coordinated effort if as a result of the latter there should be additional adverse reactions in the oil producing states similar to those which have already been experienced and which would compound rather than ease the present difficulties.

To acknowledge this preference in considering how to cope with the oil supply situation in Europe is not to express disinterest in the problem. The United States Government is deeply concerned with the problem of oil supplies to Europe. We are following the situation very closely in order that in our appraisal of the problem we may weigh all factors pertinent to our decisions in this field.

Sincerely yours,

Herbert Hoover, Jr. [3]

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[3] Printed from a copy that bears this stamped signature.

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236. Telegram From the Department of State to the Embassy in France [1]

Washington, November 23, 1956—6:58 p.m.

Topol 877. Re Polto 1180 [2] rptd London Polto 132.

1. Believe proposed combination of OEEC and OELAC committees desirable in bringing close relationship between European government decisions on allocations and industry implementation such decisions. Should also greatly strengthen OEEC whose regular staff

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[1] Source: Department of State, Central Files, 840.2553/11–2156. Confidential; Priority. Drafted by Moline and approved by Kalijarvi. Repeated to London.

[2] Dated November 21, not printed. (*Ibid.*)

not adequate deal with technical aspects present problem. Antitrust immunity to US companies granted through MEEC not available to US companies for cooperation with OELAC or OEEC until MEEC requested to resume full operation under plan of action, therefore doubt whether US company observers would be willing participate.

2. Envisage committee as replacement for the OEEC–OELAC part of the coordination mechanism previously established. Believe it most undesirable however seek also replace MEEC by such committee. Three main reasons this view a) MEEC as now approved provides assurances companies need on antitrust aspects and which could not be provided for a new mechanism without delay b) MEEC has membership 15 companies many not important in foreign marketing but whose operations require coordination if maximum efficiency of effort is to result c) oil supply problem will have repercussions outside Europe. Consider it impractical and undesirable rely only on one mechanism and that in Europe to deal with world problem especially in its Afro-Asian aspects.

3. Agree your negative view on visit high level OEEC Secretariat team at this time. Unquestionably premature and possibly counter productive. Visit before long might well be useful but will concert with you before pursuing subject.

Hoover

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237. Memorandum of a Conversation, Department of State, Washington, November 28, 1956[1]

SUBJECT

Middle East Crisis and Oil Situation

PARTICIPANTS

Mr. Liam Cosgrave, Irish Foreign Minister
The Acting Secretary
Ambassador Hearne
C. Burke Elbrick, EUR

In the course of his call upon the Acting Secretary this morning Minister Cosgrave raised the question of the Middle East crisis. Mr. Hoover said that we were passing through difficult times and that while we regret that we have had to differ with our traditional allies on this matter, we have every reason to believe that once certain steps have been taken to proceed to a solution of the problem that our alliance will grow even stronger. In this matter we have acted according to our conscience. The British and French action in Egypt has had the unfortunate effect which we had earlier predicted, namely, it invites Soviet penetration of the area and serves to build up Nasser's prestige. We have no great fondness for Nasser nor his actions with respect to the Suez Canal and we believe that the other Arab countries feel the same way. Unfortunately, the British and French action only served to unify the Arabs.

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[1] Source: Department of State, Central Files, 684A.86/11–2856. Confidential. Drafted by Elbrick and initialed by Hoover.

Minister Cosgrave said that the Irish Government was in complete agreement with the United States on this issue and felt that the British and French action had been most unwise. He referred then to the growing seriousness of the oil situation in Europe and said that rationing of oil in Ireland will begin in January. Mr. Hoover then recited some of the background of the oil question, pointing out that the problem is one of transportation and not a shortage of oil. With the Suez Canal closed and all but one pipeline out of action, Europe will be faced with an oil problem for some time to come. The Tapline from Saudi Arabia is mined for much of its length and could be sabotaged at any time. This Tapline supplies about 300 thousand barrels a day and if the line were to be put out of commission it would require an additional 170 tankers to carry that amount of oil around Africa to Europe. The Minister would understand the delicacy of this situation. Once the situation is stabilized in Egypt work can be commenced on the clearing of the Canal. The British informed us that it should be possible to clear a 25-foot channel in the Canal in a matter of 30 days or so, although our own Navy is inclined to think it might take longer. To clear the Canal to its normal operating depth would require possibly several months. In any event, a clearing to a 25-foot depth would permit approximately 70 per cent of the Canal traffic to resume transit through the Canal. This question of oil supply is of course of vital importance to Europe but it will also affect the entire world in one way or another. Due to the delicate situation in the Arab countries, particularly in connection with the Tapline, we have not been able to move to aid the United Kingdom and France until they comply with the United Nations resolutions on the Suez crisis. If they will announce publicly their plans to withdraw and these plans are acceptable to the Secretary General of the United Nations, we will be able to move forward rapidly.

The Acting Secretary said that the United States has felt all along in this crisis that it is not right for members of the United Nations to take the law into their own hands. This would only encourage others to do likewise. He remarked that the British-French action has, unfortunately, given the Soviet Union an "out" in connection with its recent actions in Hungary and has served to distract attention from that tragic situation.

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238. Editorial Note

On November 30, the United States Government authorized activation of the Middle East Emergency Committee (MEEC). On November 25, the President had agreed with Acting Secretary of State Hoover that they could not wait any longer to set up the MEEC and Flemming was given the responsibility. At the National Security Council meeting on November 30, Flemming reported that his committee had recommended announcing the decision to put the emergency plan into action immediately because it could be done without jeopardizing United Nations efforts to obtain a withdrawal and without offending Arab nations.

By activating the MEEC, the United States Government authorized 15 American oil companies to coordinate the efforts they had been making individually to assist in handling the oil supply problem resulting from the closing of the Suez Canal and pipeline stoppages. It also allowed immunity from application of anti-trust laws which had prohibited company coordination without government authorization. The companies were subsequently permitted to work through the Organization for European Economic Cooperation (OEEC) and its subordinate committees in the implementation of these plans. On December 7, the Department of the Interior approved the first two schedules of revised shipments submitted by the MEEC under which certain Western Hemisphere and Middle East shipments usually delivered to the Western Hemisphere ports were rerouted to Europe and other areas of shortage, and other Middle East shipments were also rerouted for greater efficiency. (Circular telegram 483, December 8; Department of State, Central Files, 880.2553/12–856)

239. Circular Telegram From the Department of State to Certain Diplomatic Missions[1]

Washington, November 30, 1956—8:49 p.m.

458. Joint State–USIA message. From press and radio accounts there seems to be need for more accurate information in Europe regarding the causes leading to the shortage of petroleum products. In a number of accounts which have come to our attention the problem was reduced to a simple formula of American unwillingness to provide oil. Obviously it is oversimplified, misleading and harmful to pose the problem in these terms. While it is expected that European criticism will diminish at least for awhile now that the Middle East Emergency Committee is being reactivated it may revive as the shortages continue. It is desired therefore that Public Affairs Officers in the respective missions endeavor through background briefings and off the record conversations with key correspondents and broadcasters to convey to the public a better comprehension of the nature of the problem.

It is not the purpose of this circular to attach blame for what has happened but to place the matter in proper perspective. Europe's oil supply comes largely from the Middle East. Incident to recent military operations the Egyptians sank numerous vessels and destroyed installations in the Suez Canal preventing free passage. In addition certain pipelines feeding into the Mediterranean were sabotaged. As a result of these developments there has been created a serious transportation problem in respect to the delivery of petroleum because there is not a sufficient number of tankers to deliver oil over the longer route which must be followed in view of the closure of the Suez Canal and the loss of certain pipelines in the Middle East.

The problem basically is a transportation problem and not a problem of adequate oil supplies. If we had sufficient transportation facilities the accessible producing areas in the Persian Gulf and the Western Hemisphere are adequate to cover the present demand for petroleum. In this connection the one pipeline from Saudia Arabia to the eastern Mediterranean which continues in operation is of particular importance in supplying the Mediterranean area. If this were destroyed as many as 200 additional tankers would be required to move the same quantity of oil around the Cape of Good Hope to the

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[1] Source: Department of State, Central Files, 840.04/11–3056. Official Use Only. Drafted by Moline and approved by Robert Murphy. Sent to Ankara, Athens, Bern, Bonn, Brussels, Copenhagen, Dublin, London, Luxembourg, Madrid, Paris, Reykjavik, Rome, Vienna, Oslo, Stockholm, The Hague, Lisbon, and USUN.

Mediterranean as are now required. If this line had been lost as a result of a reaction to a premature activation of the Middle East Emergency Committee it would not have been possible in a subsequent coordinated effort to improve the supply available beyond what the uncoordinated efforts have been producing.

The following numerical data may be of some interest in discussing the problem. Currently the Eastern Hemisphere west of Suez has been using three million barrels per day of crude oil. 2.2 million b/d came from the Middle East, 475,000 from the Western Hemisphere, 200,000 from local sources and 60,000 b/d from the Soviet bloc. Middle East deliveries to this area will now be limited to the 320,000 b/d from the trans-Arabian pipeline and about 800,000 b/d around the Cape of Good Hope. Western Hemisphere deliveries are expected to increase by about 500,000 b/d over normal deliveries. The indicated shortage is therefore approximately 20 percent. As soon as it is possible to restore some of the Middle East pipeline capacity or to make use of the Suez Canal this shortage would be substantially reduced and possibly eliminated.

It should be remembered that it is most inaccurate and misleading to assume that the US favors Nasser, ignores the needs of its friends and allies and fails to understand the issues which are involved. Depcirctel 411 [2] stated our awareness of the economic political social and military impact of an oil shortage in Europe. Throughout the negotiations regarding the Suez Canal which began last July the US has pointed to the very problems which have now developed. In addition to the physical problems of oil supply which are involved there is an acute financial problem to be faced if the shortages persist for long. If a considerable portion of Europe's oil supply is shifted from a sterling to a dollar basis there will be a serious impact on the financial situation of certain European countries. While we are hopeful that their own resources will permit their meeting the financial problem for awhile we would anticipate the possibility of discussions between governments regarding the financial aspects should this later be necessary. It is urged that the Chief of Mission give this matter his personal attention and the staff members especially the public affairs officers devote their best efforts to creating a better understanding of the problems involved on the part of the authorities and the public in their respective countries.

This supplements Depcirctel 451. [3]

Hoover

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[2] Dated November 17, not printed. (*Ibid.*, 840.04/11–1756)

[3] Circular telegram 451, November 29, announced the activation of the MEEC plan of action on November 30. (*Ibid.*, 840.04/11–2956)

240. Memorandum From the Officer in Charge of Economic Organization Affairs (Moline) to the Special Assistant to the Under Secretary of State (Sohm)[1]

Washington, January 7, 1957.

SUBJECT

The British Memorandum Presented January 4 on Transport of Middle East Oil[2]

The subject of the memorandum is most important. It warrants the prompt attention by governments and oil companies which the British suggest. Defense, Interior, ODM and State are importantly concerned with the issues which are raised.

The problem could be solved if the U.S. and UK oil companies were able and willing to build tankers sufficient in numbers to bypass the Canal. They are not. The solution depends in the main on political arrangements guaranteeing secure oil transit through pipelines in the Middle East or through the Canal. The consequences of failure are also political deriving from an undermining of the economies and military position of Western Europe and our relations with this key area.

In view of the political factors mentioned, I believe that the U.S. position should be worked out interdepartmentally under State Department chairmanship. Other agencies such as ODM could deal with particular aspects of the problem such as tankers. A case could be made for E, EUR, or NEA chairmanship. I would favor either of the latter in view of the predominance of political elements.

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[1] Source: Department of State, Central Files, 880.2553/1–757. Confidential.

[2] This memorandum, not printed, was the result of preliminary studies by various departments of the British Government on the long-term problems of transporting rapidly increasing quantities of oil from the Middle East. It included the problem of ensuring against interruption of oil supplies and suggested preliminary steps for the further consideration of these problems. It concluded that collaboration between the United States at the company and the government level was essential in order to secure: 1) an assessment of the plans of oil shipowning and shipbuilding interests worldwide; 2) an agreed basis for settling priorities as between the canal pipelines and tankers, and for deciding the extent to which any scheme of insurance is desirable or possible; 3) broad agreement on the proportion of the various types of tankers which might be needed; 4) an appreciation of the productive capacity and of steel availability for tankers and pipelines; and 5) an appreciation of the capital required for the transport of oil on the scale envisaged and of the extent to which these requirements, together with the requirements of the oil industry for the development of production, refining, and distribution, could be met by traditional methods. A copy of the memorandum is *ibid.*, PPS Files: Lot 67 D 548, Near and Middle East.

In addition to the transport considerations raised by the British I would suggest broadening the study to include under Section VII[3] the question of guaranteeing adequate production of oil in the Middle East. In another few years the production of single countries, e.g. Saudi Arabia and Kuwait in particular, will be so large that the loss of any one will create difficult problems of replacing the lost supplies especially as the Western Hemisphere may then be a net importer of oil.

[Attachment]

PRELIMINARY DFI COMMENTS ON THE RECENT UK PAPER ON OIL

1. The UK paper on the long-term problem of transport of Middle East oil makes the following assumptions which require further study by this government:

a) that the demand for Middle East oil to be shipped west of Suez (*including* the Western Hemisphere) will increase from 2,200,000 b/d in 1955 to 3,800,000 b/d in 1960, 6,100,000 b/d in 1965 and to 8,700,000 b/d or even 10,200,000 b/d in 1970 (depending on whether the US would import 3 million b/d or content itself with 1.5 million b/d); demand west of Suez *excluding* the Western Hemisphere, will increase from 1,860,000 in 1955 to 3,200,000 in 1960, 4,900,000 in 1965 and 6,800,000 in 1970. A relatively small amount increasing from 80,000 b/d in 1955 to 800,000 b/d in 1970, corresponding to movements to South America via the Cape and to the west coast of the USA via the Pacific, would not be affected by the Suez and pipeline problems.

b) that to cope with the transportation problem a compromise be adopted between the three principal solutions, building up of the Suez Canal, construction or expansion of pipelines and construction of supertankers for the Cape route. The paper argues in this respect that in view of political risks involved Canal and pipelines should be expanded with caution. The *Canal*—through which more than 1.5 million b/d were carried in 1956—should be built up only to a capacity of 3 million b/d (No. 13), in other words only the 8th improvement program of the old Canal Company should be carried out. This program had been started in December, 1954 and probably would have been finished long before 1965. The Company appeared to be willing to finance it without outside help. The *pipelines* through which 800,000 to 900,000 b/d are moved now, should reach a total capacity of 1.6 million b/d including the 400,000 b/d capacity of a line from Northern Iraq to Turkey. These ends, both as regards the Canal and the pipelines, would be achieved by 1965 (which presumably means the end of that year). The remainder of West-bound Middle Eastern oil would have to move via the Cape. These shipments would increase from 400,000 b/d in 1960 to 1.1 million b/d in 1965—and since Canal and pipeline development would stop at that time—rise rapidly to 3.3 million or even 4.8 million b/d in 1970.

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[3] This section was entitled "Recommendations for Future Action."

2. The British estimate (Annex 'A') of demand for Middle East oil in Western Europe and West and North Africa (that is, west of Suez excluding the Western Hemisphere) shows the following rates of growth:

	thousands of barrels daily	average annual rate of increase (compound)
1955	1,860	12
1960	3,200	9
1965	4,900	7
1970	6,800	

These rates represent an average rate of growth in oil consumption of 9% per annum (compound) during the period 1955–1970, compared with a post war average of over 13 percent in OEEC oil consumption from all sources. The British estimate of oil requirements for the decade 1960–1970 may, therefore, be on the conservative side. This is in marked contrast to the general tone of their paper which is to emphasize the enormity of Western requirements for Middle Eastern oil. It should be noted, however, that the British estimates for the 1960's are higher than those of the OEEC Oil Committee in their report of September 1956. For 1960, they are about 5% higher than the OEEC, while for 1970 they use the OEEC forecast for 1975. Nevertheless, we should explore with the British the basis for their assumption of a considerable decrease in the rate of growth in oil use during the 1960's.

We have no comment at this time regarding the British estimates for the entire area west of Suez including the Western Hemisphere.

3. It would seem questionable, at first sight, whether to increase the capacity of the Suez route beyond 3 million b/d, a second Canal would have to be built (No. 19). However, the UK view might be correct, after all, since not only about 150 million tons of oil, but probably 30 to 40 million tons of other west-bound goods would use—or try to use—the Canal by 1965. Increasing quantities of dry cargo also are moving westward through the Canal, amounting (in tons) to roughly speaking thirty percent of the oil moved in the

same direction. The UK paper suggests priorities in favor of the tankers (No. 19), a measure not devoid of political risks. The statement that "the cost of moving oil through the pipelines or through the Canal is, at present, roughly equivalent" (No. 15) does not seem to be quite convincing. But supposing all assumptions of the UK's paper to be correct, many contingent problems need to be investigated thoroughly, among them:

a) the total dead weight tonnage of new tankers needed. This figure depends largely on the speed of the vessels which is assumed to be 16 knots (No. 21). It should be mentioned, however, that even now 20 knot tankers are being built (Petroleum Press Service, January 1957) and that the calculations of the UK paper (mainly in No. 21) seem to be based on speeds of less than 16 knots. The "additional requirements" therefore might be less than 25.5 million dwt.

b) The UK paper (No. 21) expects an annual net increase in tanker tonnage of 3 million dwt of which about 1 million dwt might be required for routes other than the route from the Middle East to destinations west of Suez. Other observers, however, estimate the deadweight tonnage of tankers on order or under construction in the Free World alone at 23.5 million dwt (Am. B. of Shipp., Bull. of Dec. 1956), or even 28.9 million dwt (Petroleum Press Service January 1957) as compared with an operable total of about 43 million dwt now. Fairplay, London (December 13, 1956) expects that 5.5 million dwt might be delivered in each of the next four years while scrappings would amount to about 750,000 dwt per year. If these estimates are correct, the net increase available to Suez-west routes would amount to 3.75 million dwt (5.5 million minus 750,000 minus 1 million for "other" routes) and not to 2 million dwt. Between 1961 and 1965 tanker building capacity very probably will increase. But even assuming no such increase in capacity and output there would be hardly any world-wide tanker deficit by 1965 unless scrappings were greatly stepped up and "other" routes unexpectedly would require large additional tanker fleets. For the total increase of the Free World's tanker fleet would amount to more than 30 million dwt (nine times 3,750,000) as compared with "additional requirements" of 25.5 million dwt.

c) The UK paper seems to endorse the assumption that super tankers of 60,000 dwt could be operated on the Cape route at a cost roughly comparable to that of operating 40,000 dwt tankers through the Canal (No. 15). It is not quite clear whether total costs or direct costs are meant. Considering the importance of wages as a cost factor, there would be a considerable difference between the costs of transportation in American flag and foreign flag tankers. Some thought also should be given to the routing of empty tankers through the Canal while moving them via the Cape when loaded.

d) The UK paper (No. 22 Sept.) mentions some of the problems connected with the construction of super tankers, as the expansion of yard capacities, the construction of berthing and dry dock facilities and the scarcity of steel. Perhaps the manpower problem should be mentioned too. (According to one source, the output of tonnage in the UK is restricted to about seventy percent of the yard capacity for lack of skilled manpower. (Norway Shipping News, October, 1956.)

e) The UK paper makes no mention of possible pipelines from the new fields in Iran through Turkey which may not be subject to the risks encountered in the present oil transit countries.

f) Regarding insurance against interruption of oil supplies (No. 26), there are two additional possibilities not discussed by the British:

> 1) If the US Government continues to encourage excess productive capacity in oil for defense purposes, this could be utilized in times of transport emergencies, as it is now during the Suez Canal and IPC pipeline closures.
>
> 2) Instead of scrapping old tankers, they might be put into a mothball fleet as a national reserve.

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241. Memorandum of a Conversation Between the Under Secretary of State (Hoover) and the British Ambassador (Caccia), Department of State, Washington, January 11, 1957 [1]

Ambassador Caccia inquired concerning procedures to be followed in connection with planning on the question of oil transport resulting from the Middle East crisis. He wondered how planning on the part of the companies would be coordinated with Government planning. Mr. Hoover said that he considered that planning on the part of both the Government and the companies should proceed simultaneously. On the Government side Mr. Flemming of the Office of Defense Mobilization would give the result of the Government's study to the Middle East Emergency Committee for study and comments. The "raw material" would be passed on to the United Kingdom, following which we would expect a round-robin at the Governmental level to coordinate policies.

There was some discussion regarding possible construction of a pipeline through Turkey and of a construction program for large tankers. The Ambassador said that the United Kingdom's approach to this whole problem differed in emphasis, to a certain degree, from that of the United States. He said that the British Government could never again permit a situation to arise which might jeopardize all of British industry; that the United Kingdom could no longer rely entirely on one sole source of oil supply. He pointed to certain difficulties in connection with a large tanker construction program, saying that if such a program is embarked upon there will need to be an expansion and enlargement of port facilities. The companies operating the tankers would of course expect the Government to carry out such port development. Mr. Hoover said there had been some question as to the optimum size of tankers and it seemed that 45,000 tons was the most appropriate size for such vessels. In the case of 45,000 ton tankers no changes in port facilities would be required but discharge time would of course be increased. With reference to the Canal itself, we have reports from certain oil companies to the effect that the proposal for enlarging the Canal is greatly over-emphasized and that the Canal has never really been used to capacity.

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[1] Source: Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199. Confidential. Drafted by Elbrick.

The Under Secretary said that interested companies are pressing for the conclusion of a treaty with respect to the proposed pipeline through Turkey. He said that it might be desirable to conclude a treaty regarding oil transport by such a pipeline but he felt that we could not go as far as to propose a treaty which would guarantee continued exploitation of oil resources. He felt that such a treaty would have a very difficult time getting through the Senate which would be reluctant to approve an agreement limiting any country's ability to utilize its own resources to its best advantage. If such a pipeline is the subject of a treaty it should be considered as a public utility for use, on a regulated basis, by all oil suppliers.

The Ambassador said that he was somewhat anxious about the forthcoming visit of King Saud of Saudi Arabia. He recalled that there are various unsettled matters between the United Kingdom and Saudi Arabia such as Buraimi and he hoped that King Saud would not gain the impression during his visit to the United States that he had U.S. support on all these matters. The Ambassador said that he had no instructions on this matter but he thought it desirable to raise it at this time. The Under Secretary said that we very much hoped that we could get the Buraimi talks started again when things cooled off in the Middle East and he reminded the Ambassador that the Saudis were more willing to discuss this matter at one time than was the United Kingdom. The Ambassador noted that the Iraqi and the Saudi Arabians seemed to be getting together again and he wondered, in connection with the settlement of boundary disputes, whether the United States could not give a formal guarantee of the territorial integrity of these states once the boundaries are fixed by agreement. When it was pointed out to the Ambassador that we might have some difficulty from a Constitutional point of view, he said that he had in mind a statement of some kind which would "view with the greatest concern" any attempt to alter these boundaries by force.

The Under Secretary said that we would do our best to try to restore peaceful relations between the United Kingdom and Saudi Arabia and he hoped after a cooling off period that the two might gradually come together again. He inquired concerning accounts of recent disturbances between the Aden Protectorate and Yemen. The Ambassador said that he had no official accounts of what had happened but that he understood the incidents had occurred on the United Kingdom side of the border.

The Ambassador then referred to the problem of reopening the Canal and procedures to be followed in setting up an administration of the Canal. He referred to the fact that Eugene Black of the International Bank had expressed the opinion that the $15 million provided for the clearing of the Canal would not be sufficient and that it might require some $30 or $40 million in all. He said that the question of the payment and division of Canal tolls was of the utmost importance and he wondered if it might not be wise for the International Bank to handle the whole operation. He said that he had talked to Mr. Phleger about this matter and that Phleger had said that Hammarskjold should be encouraged to work out this problem in negotiation with the Egyptians and the users of the Canal.

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242. Memorandum of a Conversation, Department of State, Washington, January 25, 1957 [1]

SUBJECT

Current Petroleum Problems

PARTICIPANTS

Sir Harold Caccia, British Ambassador

The Under Secretary
BNA—Mr. Parsons
RA—Mr. Moline

Sir Harold Caccia said that he had two questions relating to oil which he wished to discuss with the Under Secretary. The first had a bearing on the document regarding long-term requirements for the transport of oil from the Middle East which had been left at the Department on January 4[2] and the other related to the present oil situation.

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[1] Source: Department of State, Secretary's Memoranda of Conversation: Lot 64 D 199. Confidential. Drafted by Moline and initialed by Hoover.

Transport of Middle East Oil

The British paper, minus two paragraphs, had been given to the Shell Petroleum Company and the British Petroleum Company for their information and views. Shell's initial reaction had been one of some concern that the British Government felt the matter required government interest in a subject which the company considered to be within its competence. Shell had told the British Government that invitations had gone out to American companies to come to London to discuss the problem of transport of oil in the Middle East. It was the hope of the British Government that the U.S. Government would give any necessary green light to permit American companies to participate in the discussion and that antitrust questions would not stand in the way.

Mr. Moline said that he thought the meeting in question was to discuss only a pipeline from Iraq to Turkey and in this case would involve only the Iraq Petroleum Company. The Under Secretary said he thought that consultation should be limited to the companies having interests in IPC, in which case no antitrust problems seemed to arise. In his view it would be a mistake to widen the number of participants beyond those having a direct interest in the immediate IPC project.

The Under Secretary referred to a previous conversation with Sir Harold and said that while he had previously considered the desirability of bringing in an individual who might work solely on the question of pipelines in the Middle East, he now believed it would be better to handle the matter in diplomatic channels and to approach Iraq and Turkey with the idea of some kind of treaty cover for a pipeline convention which might be worked out between the pipeline company and the governments concerned. He suggested that British Government and Departmental legal experts might consider the question of an appropriate treaty. It was clear that some kind of treaty cover would be necessary if the company were to invest the very large sum which would be required in the project in question and others which might follow. It was his view that the pipeline itself should be a common carrier and have some kind of public utility aspect even though as a practical matter the only oil available in the near future to be carried in the line would be IPC oil from Iraq.

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[2] See Document 240.

U.S. Oil Exports

Sir Harold noted the fact that the most recent figures of U.S. oil exports to Europe had fallen sharply from the previous week's level and were most disappointing both in total and in crude oil content. The Under Secretary said that he fully appreciated Europe's concern in this regard but that the problem was a very difficult one. He referred to the fact that serious difficulties with respect to oil imports were in prospect and that these were certain to be intensified if U.S. production should be sharply expanded and then cut back drastically. He referred to the efforts which had been made to solve the import problem on a voluntary basis but noted that one or two companies do not subscribe to our efforts to limit imports in this fashion. Other considerations, particularly affecting Texas and related to its production capacity, also complicated the problem. Nonetheless the U.S. Government was seeking to take steps which could result in the export of more crude oil even though the steps would not be as dramatic as a Texas decision to increase production. Such moves might reduce crude runs and modify product yields. Companies had more than adequate stocks of gasoline to draw on and it was hoped to use U.S. Naval reserve stocks to guarantee the companies against fuel oil shortages, thus permitting them to draw down fuel oil stocks below the levels which would be considered prudent to cope with an unexpected cold snap.

The Under Secretary said that Naval authorities in the U.S. were of the opinion that British Admiralty stock might also be used in the same fashion to permit a greater stock drawdown than might otherwise be possible in the United Kingdom. Sir Harold said he would look into this matter and would have his Petroleum Attaché inform the Department of the results of this investigation.

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243. Editorial Note

On January 31, 1957, the Council on Foreign Economic Policy deferred consideration of a proposal made by the Department of the Interior to amend the Council's February 14, 1956, decision to limit supplemental stockpile acquisitions. Consideration of this proposal, which would have permitted the barter of agricultural surpluses for tungsten, was delayed until after the Department of the Interior had completed a study of the desirability of continuing the Council's limitation on all items in the supplemental stockpile. The Council's records indicate that no decision on Interior's proposal was made in 1957. Documentation on this subject is in Eisenhower Library, CFEP Records, both in the Status Reports on CFEP 544 for 1957 and in the CFEP 544 Agenda Subject File, and Department of State, E–CFEP Files: Lot 61 D 282A, Supplemental Stockpile Objectives for Tungsten—CFEP 544.

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244. Editorial Note

On March 5, Arthur S. Flemming sent a letter to United States importers of crude oil stating that when the Suez crisis had ended, his office would have another look at the country's crude oil imports picture in order to determine if the national security was substantially impaired by such imports. The letter asked each importing company to submit an estimate of its imports planned for the 6-month period immediately following the reopening of the Suez Canal or the Iraq Petroleum Company pipeline, or both. On the basis of these estimates, the Office of Defense Mobilization would determine whether the projected volume of imports into United States Districts I–IV in the immediate post-Suez period would be in line with permissible 1954 rations. If not, the office would request revised estimates from the companies in an attempt to determine whether Section 7 of the Trade Agreements Act should be applied to limit imports. The letter also stated that in determining any action which might be taken to limit oil imports into the United States, due consideration would be given to using normal import patterns as a base period rather than emergency diversions. (Department of State, Central Files, 411.006/3–857)

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245. Editorial Note

In London, March 18–20, the heads of the major American and European oil companies held exploratory talks regarding the problems involved in the transport of Middle East oil by new pipelines in the area.

Representatives of the British Embassy in Washington and the Department of State prepared a joint position paper, dated March 16, entitled, "Guarantees for Maintenance of Flow of Middle East Oil Through Pipelines," for the talks between President Eisenhower and British Prime Minister Harold Macmillan at Bermuda, March 20–23. Acknowledging that greater guarantees for oil pipeline operations would be desirable, both governments agreed in this paper to continue to lend appropriate assistance to petroleum transit companies in the defense of their interests under existing transit arrangements and to consider negotiating treaties with transited countries designed to lend stability to new pipeline projects.

At Bermuda on March 23, the President and the Prime Minister agreed that the United States and the United Kingdom would study separately as a matter of urgency "the present situation and probable future developments throughout the Middle East, dealing first with those aspects of the problems bearing upon the supply of oil to the free world" and exchange views based upon these studies on or before April 15. This agreement is outlined in the undated paper entitled "Agreed Position on Study of Middle East Problems," approved on March 23.

Documentation on these meetings, including texts of the papers cited here, is scheduled for publication in volume XXVII.

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246. Special Staff Note for the President [1]

Washington, April 8, 1957.

From Justice

Oil Cartel Negotiations—Mr. Eugene Holman and the Attorney General have agreed that a settlement of the oil cartel case would contribute materially to the over-all governmental policy to promote stability in the Middle East. Accordingly, intensive settlement negotiations have been commenced with Standard Oil of New Jersey.

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[1] Source: Eisenhower Library, Whitman File, Eisenhower Diaries. Prepared by Albert P. Toner, Assistant to the White House Staff Secretary. The White House Staff Research Group relayed information received from the agencies or departments.

247. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Deputy Under Secretary of State for Economic Affairs (Dillon)[1]

Washington, April 8, 1957.

SUBJECT

Meeting of President's Advisory Committee re Oil Imports, 4:00 P.M. April 9, 1957

Mr. Gordon Gray, the new Director of the Office of Defense Mobilization in his capacity as Chairman of the President's Advisory Committee on Energy Supplies and Resources Policy, is calling a meeting of that Committee on April 9 to consider oil imports. The meeting will probably be exploratory, inasmuch as Mr. Gray feels that the presence of several new members, including himself, makes necessary one meeting devoted to a familiarization with the issues.

Mr. Gray met last week with several persons who have been intimately associated with this question, including: Herbert Hoover, Jr. who represented the Department of State on the Committee from the date of its formation on July 30, 1954 until his recent departure; Dr. Arthur S. Flemming, Mr. Gray's predecessor in ODM; Mr. Robert Anderson, the former Deputy Secretary of Defense; and Mr. J. Ed Warren, long identified with the domestic crude oil producing industry, formerly a President of the Independent Petroleum Association of America, and now a Senior Vice President of the First National City Bank.

Oil imports are a perennial problem for the Department. The problem has now reached a critical stage wherein domestic political pressures, under the guise of a narrow concept of national security, may bring about the imposition of formal governmental oil import restrictions harmful to our broad security interests and in violation of broad foreign policy principles long followed by this country.

The Issues

Restrictions on crude oil imports are demanded by the domestic crude producing interests, chiefly through such organizations as the Independent Petroleum Association of America and the Texas Independent Producers and Royalty Owners Association. These interests contend that the expansion of the domestic crude oil industry is hindered by oil imports to the extent that national security is endangered. The IPAA uses as its motto the statement, "There is no security in foreign oil for the defense of our own borders".

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[1] Source: Department of State, Central Files, 100.4/4–857. Confidential. Drafted by Beckner and Rutherford on April 5.

For several years the United States coal interests, including the mine operators, the miners' union and the railroads, have demanded severe legislative restrictions on residual fuel oil imports on the ground that such imports have lowered the coal industry's coal producing capacity to a level which threatens our national security. Although bills have been introduced in the present Congress to restrict residual fuel oil imports, it appears that this problem will not be viewed seriously because of the substantial recovery of the coal industry since its low point in 1954.

Restrictions on oil imports have been opposed generally by three groups: the larger oil companies who have holdings abroad and who import much of the oil involved; the oil jobbers (distributors) and the larger fuel oil consumers along the eastern seaboard and in New England; and those manufacturing groups scattered throughout the country who have any considerable export trade dependent upon the dollar income of various foreign economies. These opposition groups are not well organized—in contrast to the domestic oil producers—and in general they are less vocal and less effective in their efforts.

The Department of State is the only government agency which has strongly opposed formal oil import restrictions. Over the years the Department has maintained:

(1) That it has not been shown that the domestic oil producing industry is being harmed or the national security threatened by oil imports;

(2) That long range trends indicate the probable need for the United States to import an increasing proportion of its oil supplies;

(3) That the imposition of formal import restrictions would contravene our established principles related to the strengthening of Free World economies by the encouragement of world trade and United States investments abroad.

(4) That the imposition of restrictions would violate our commitments under GATT and our reciprocal trade agreements;

(5) That the national defense requires continued access to foreign sources of oil.[2]

Recent Developments

The import issue is now tied in with the earlier recommendations of the Advisory Committee and the provisions of Section 7 of the Trade Agreements Extension Act of 1955—the so-called "national security amendment".

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[2] In a memorandum of April 9 to Dillon, Rubottom underscored Kalijarvi's arguments by stating that petroleum imports did not endanger national security by discouraging exploratory and development effort in the U.S. domestic petroleum industry. (*Ibid.*, 411.006/4–957)

The Advisory Committee issued its basic report on February 26, 1955. It stated that a strong petroleum industry, both in the United States and in friendly countries, and a coal industry operating at a satisfactory level, are essential to our national defense, but that the domestic fuels situation would be impaired if imports of crude and residual fuel oil were to exceed significantly the proportion which they bore to domestic crude oil production in 1954. The report recommended that such a balance be maintained by the voluntary individual action of the importing companies and that every effort be made to avoid governmental intervention. It further recommended that "appropriate action" should be taken in the event imports exceed their 1954 proportion, and that the Committee review the desirable proportionate relationships between imports and domestic production from time to time in the light of industrial expansion and changing economic and national defense requirements. (Tab A)[3]

Shortly after the issuance of this report, numerous bills were introduced into Congress, including the Neely Amendment to the Trade Agreements Extension Act, which would have restricted crude and residual fuel oil imports by the imposition of fixed legislative quotas. These bills had strong support in the Congress but were dropped when the Administration agreed to the inclusion of Section 7 in the Trade Agreements Extension Act (Tab B). There exists some implication that ODM is obligated to hold oil imports to the level of the Advisory Committee's recommendations or, failing that, to certify to the President that such imports threaten to impair the national security.

The only reference which the President has ever made to the recommendations of the Cabinet Committee and the implementation of voluntary restrictions was contained in his request last fall that ODM study the problem of tanker availability; he stated that any proposed program should be compatible with the objectives of our oil import policy.

During the course of 1955 and 1956, Dr. Flemming, as Chairman of the Advisory Committee and as Director of ODM, sought by the use of letters addressed to the individual importing companies, and on the basis of reports of importing plans submitted individually by those companies, to keep imports of oil substantially at the 1954 formula levels. After consultation with the Committee, Dr. Flemming modified the formula by permitting, subject to constant surveillance, unrestricted imports of residual fuel oil, crude oil from

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[3] Tabs A through E were not found with the source text.

Canada and Venezuela, and crude oil imports into the Pacific Coast area (District V). These exclusions in effect limited the application of the formula to crude oil imports into the eastern part of the United States from the Middle East—or only some 30–35 per cent of our total crude oil imports.

When the mid-1956 reports of the importing companies indicated that their planned imports would appreciably exceed the 1954 rations, the Advisory Committee undertook a broad review of the situation. A report was issued on October 7, 1956, reaffirming the principles and recommendations enunciated in the February 1955 report and confirming the exceptions and exclusions to the formula which had developed in the interim. (Tab C)

Meanwhile, on August 7, 1956, the Independent Petroleum Association and eighteen other affiliated associations petitioned ODM to make a finding under Section 7 that imports were endangering the national security and to so certify to the President.

Dr. Flemming on October 22, 1956 instituted hearings on this petition and, at the conclusion of the hearings, requested the oil importing companies to review their import plans in the light of the October 7 report of the Advisory Committee and to submit in November revised plans of their imports for the year 1957. Dr. Flemming undertook to judge the resultant import picture by the standards which were set forth in the October 7 report.

On December 4, Dr. Flemming announced that he was suspending action on the Section 7 hearings, in view of the Suez crisis and the attendant disruption of the oil import trade. He stated at the same time, however, that had it not been for this circumstance he would have had to certify to the President a finding that imports were a threat to the national security.

Just prior to his leaving ODM, Dr. Flemming requested the importing companies to submit plans showing what their crude oil imports will be in the event of resumption of a normal flow of oil from the Middle East. The plans reveal a generally upward trend in crude oil imports which exceeds the rate of growth of our domestic crude oil production. Imports into the eastern part of the United States from the Middle East would total some 5.4 per cent of domestic production in that part of the United States, compared to the suggested formula, or 1954 ration, of 3.8 per cent. Total crude imports into all sections of the United States from all sources would rise to 16.8 per cent of total domestic crude oil production, compared to the permissible imports under the original formula of 10.34 per cent.

You have already received from Mr. Gray an ODM staff paper[4] which summarizes all of the above developments and which includes a statistical presentation of the latest plans of the importing companies.

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[4] Not found in Department of State files.

Immediate Considerations

It is generally conceded in the oil industry that during the course of the past two years the Advisory Committee and ODM have "gotten themselves into a box", with formal restrictions almost a certainty at the next turning. The Advisory Committee faces forthwith the necessity of deciding whether to consider the October 7, 1956 report as still valid and its standards still applicable. If so, it is implicit that Mr. Gray carry forward the course of action initiated by Dr. Flemming and certify to the President under Section 7 that oil imports are threatening to impair our national security.

Such a finding would be based on the fact that the 1957 scheduled imports from the Middle East into Districts I–IV of some 310,000 barrels per day exceed by 16 per cent, or about 50,000 barrels per day, the quantity which would be permitted under their 1954 ratio. Yet, in fact, such imports would constitute only a minor part of the total import picture. The industry which would be "threatened" would be the entire United States petroleum industry—producing currently at the rate of 7,800,000 barrels per day, the highest in its history.

Alternately, now, the Advisory Committee could, by the issuance of new recommendations and the establishment of other standards, obviate such a portentous course of action. As already noted, the February 1955 report of the Committee recommended that the issue be reviewed from time to time in the light of changing conditions. Dr. Flemming himself also paved the way for such a new review when, during the course of an informal press conference late in December 1956, he said that after the Suez crisis the whole picture should be looked at again—and that this should be done *from the point of view of the original 1955 concepts.*

It is important to bear in mind that, during the course of the past two years, the recommendations of the Advisory Committee and the concepts implicit in the language of Section 7 have become almost inextricably intertwined. At the same time, the refinements and modifications of the import formula have been so substantial that only a third of our total crude oil imports come strictly within its purview; thus the proponents of restrictions can with some justification say that the voluntary restrictions as presently constituted are a mockery. Additionally, during the past two years the Committee had come to look at the oil import situation more and more in the light of a literal interpretation or application of statistics, and had lost sight of the final observation of the February 1955 report: ". . . the importance to the economies of friendly countries of their oil exports to the United States as well as the importance to the United States of the accessibility of foreign oil supplies both in peace and war". [5]

Recommendations

It is recommended that you express your reluctance to proceed any further along what Dr. Flemming very early termed the "long, long road toward restrictions".

It is recommended that you state that the Department feels it imperative that the Committee go back to the February 1955 report with the intention of looking at all of the factors listed therein, and not solely the one phrase as to whether, ". . . imports . . . exceed significantly the respective proportions . . . ."

We suggest that you urge renewed consideration of the following points:

1. *The United States has become a deficit nation in oil supplies and will need in the future an increasing proportion of imports*. The report of the President's Materials Policy Commission in 1952, observed that, "Ultimately the growth in United States crude production will have to taper off as it becomes increasingly difficult to make new discoveries" and that, "It is generally accepted, however, that at some time in the future the job [of meeting growing demands] [6] will become considerably more difficult". A widely recognized Chase Manhattan Bank report indicates that United States crude production will reach its peak about 1965 and decline thereafter, although domestic demand will continue its rapid increase. The January 15, 1957 *World Petroleum Report*, an authoritative annual review of international oil operations, states that, "As a result of the decreasing yields, and other factors, the US has become increasingly dependent on foreign sources for its oil supply. . . . There are many indications that this trend will continue at an accelerated rate in the future".

The rate of increase in the United States demand for oil has far out-stripped the rate of growth in production. Our once large exports have dwindled; deficits in supplies have been made up by constantly increasing imports. In recent years the additions to proved crude oil reserves have barely kept pace with domestic crude oil production, and the ratio of total proved reserves to demand is down to a low level. (Tab D)

This situation, however, is the result of a physical circumstance: most of our readily accessible oil has already been discovered. The domestic industry has not slackened in its search for oil; to the contrary, present incentives are such that the efforts going into wildcatting and production drilling are constantly increasing. (Tab E) The higher price for crude oil, which would accompany any limitation on imports, might inspire a slightly more liberal exploration program, but it could not insure the finding of any considerable amounts of additional oil. Thus, the reduction of the competition from imports would not necessarily improve our oil reserve position nor the strength of our domestic crude oil producing industry.

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[5] All ellipses in this document are in the source text.

[6] Brackets in the source text.

2. *The crude oil being imported into the United States is almost entirely the product of United States investment and industrial enterprise*. These imports represent another segment of the United States oil industry. Our companies have gone abroad to search for sources of oil *additional* to those which they possess in the United States; they have been encouraged to do so by the United States Government. The investments abroad of our oil companies now total some eight billion dollars, or approximately one third of our total investments abroad. A repudiation of the faith and initiative of these companies, by the imposition of restrictions on the importation of their oil, cannot be lightly undertaken.

It can no longer be claimed that only the five major companies are involved in this import problem. A number of "semi-majors" such as Atlantic, Amerada, Cities Service, Continental, Phillips, Richfield, Sinclair, Standard of Indiana, Standard of Ohio, Ohio Oil Company, Tidewater, Superior, and Union of California are also either importing considerable quantities of crude from abroad or have secured concessions abroad. More recently other companies have joined this list; some of them might have been included not too long ago in the ranks of the "Independents": Wilshire, General Petroleum, Gabriel, Hancock, Signal, Honolulu, Pure, Union of Louisiana, Texas Gas and Transmission and H. L. Hunt. The 1957 *World Petroleum Report* observed that, "This trend toward foreign operations is probably the outstanding recent tendency in the US petroleum industry".

3. *Not until it is clear that our broad national security interests will permit the imposition of oil import restrictions, and not until it is clear that our domestic oil producers are being significantly harmed by imports to the detriment of national security, should we consider paying the price of imposing restrictions.*

The United States has strenuously opposed the imposition of quantitative trade restrictions by many countries; in the absence of overriding reasons to the contrary, the United States should not itself resort to such restrictions. The "voluntary" controls which we have attempted to implement during the past two years have themselves been of a questionable nature; it is certain that legislative or other fixed quotas, even though based on alleged national security considerations, would fail of acceptance by the other members of GATT and the partners to our Reciprocal Trade Agreements, and that the United States would be called upon for extensive compensatory concessions.

The imposition of oil import quotas would in all likelihood result in the immediate abrogation by Venezuela of our 1952 trade agreement with that country which forms the basis for a half billion dollar annual export business beneficial to every part of our country.

Regional, national and inter-company discriminations would be concomitant with quantitative restrictions. The recent report of the Boggs Subcommittee of the Ways and Means Committee on Customs, Tariffs and Reciprocal Trade Agreements noted that, "Even where the effort is made to avoid discriminatory impact of such restriction on the supplying countries, discrimination according to the standards of the free-enterprise system cannot entirely be avoided". The experience of the Advisory Committee during the past two years had already led to the conclusion that certain discriminations would be necessary. Even the more extreme of the oil import restrictionist group admit, for instance, that the Canadian industry is almost completely identified with that of the United States and that imports from Canada form a natural part of our domestic supply. Other shades of discrimination are evident: the domestic oil producing industry has as a foremost objective the elimination of Middle East imports, rather than the Caribbean where costs of production are more comparable to those of our own industry.

Quotas limiting growth of imports from the Middle East would have a severe impact there which could tend largely to negate the effects of the Eisenhower Doctrine. Three of the politically strategic countries of the Middle East are the source of most of the oil which comes to the United States from that area: Iran, Iraq, and Saudi Arabia. The governments of those countries are eager that the companies producing their oil should continue to find expanding markets which in turn make possible larger revenue and tax bases. Those countries are highly cognizant that their only important commodity in international trade is oil.

It has just come to our attention that the huge world tanker building program, which is a major defense of the West against interruption or loss of supplies of Middle East oil, is showing signs of weakness. A principal cause is the uncertainty in the industry as to possible United States Government restrictions on oil imports.

In addition to foreign policy considerations, part of the price which we would pay for restrictions would be the increased cost of petroleum products to the United States domestic consumer; price increases in crude oil would be inherent in a limitation of supplies. The increase of 30¢ per barrel which accompanied the Suez crisis resulted in about $1.5 billion annually to be passed on to the consumer for gasoline, distillates and fuel oils. The oil producing interests say that even this was insufficient and that another 50¢ would be fully justified by the increased costs of finding oil. The price increase just experienced has already been the subject of Congressional investigation; certainly the President in recent months has stressed the greater need for economy and the necessity of avoiding any new cycle of price increases and inflation.

4. *Foreign supplies of oil, including those in the Middle East as well as those in the Caribbean, are necessary to our National Defense.* The overseas engagements of World War II and the Korean crisis were largely fueled out of the refineries of Venezuela and the Netherlands West Indies and the refineries in the Persian Gulf. The only practicable source of petroleum to support large military operations in the Pacific and Indian Ocean areas is the Middle East.

5. *The United States domestic oil industry is presently strong and prosperous.* The income, profits and reinvestments of the oil industry are every year at higher rates. (Tab E) An editorial in the *Oil and Gas Journal* of January 28, 1957 expressed the confident attitude of the industry: "The best year in history is forecast for 1957. . . . Don't let anybody tell you that the oil industry in the United States has passed its peak and is going into a decline. The record for 1956 and the planning for 1957 reveal a vigorous, aggressive, optimistic industry, an industry that has good reason to see growth opportunity in every direction".

Importantly responsible for this condition of well-being in the oil industry are the advantageous tax provisions under which it operates. The depletion allowance of 27½ per cent is higher than that granted any other industry. The larger part of all drilling costs—the intangible costs, such as labor, services and supplies—may be written off in the calculation of taxable net income. References to the increasing costs of finding oil are therefore not fully justified inasmuch as such costs are to a considerable degree offset by reductions in taxes paid.

Since its organization in 1929, the IPAA has constantly claimed serious injury from oil imports. Typical is the following testimony of Independent Petroleum Association witnesses before the Senate Finance Committee in 1931 and 1932 respectively: ". . . the domestic oil industry is being ruthlessly destroyed . . ."; ". . . make us compete . . . with foreign oil . . . which is the cause of the destruction of the American petroleum industry . . ."; and ". . . the independent branch of the oil industry cannot exist for another year unless relief is obtained". A well known oil journal, *The Oil Forum*, published an article in March 1954 entitled, "The IPAA: The False Prophet", which traced these claims during the first twenty-four years of the Independent Petroleum Association history. During this period the domestic oil industry has reached ever greater heights of prosperity, with only a few temporary set-backs.

As a summary recommendation, it is believed that you would be well guided by a dictum expressed by Mr. Gray himself in his 1950 Report to the President on *Foreign Economic Policies:*

> ". . . There is real danger that the defense effort will lead many countries to impose unnecessary and harmful barriers on their trade. Such a development would be harmful both to the immediate objective of mobilizing resources for common defense and economic welfare, and to our long-range objective of achieving the highest possible degree of freedom in the commercial and financial relationships among the nations of the world. It is now even more essential that the resources of the non-Communist world be employed as efficiently as possible and that protective and autarchial practices which serve only the narrow interests of specialized groups be abandoned."

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248. Memorandum for the Files, by M. Robert Rutherford of the Fuels Division, Office of International Trade and Resources [1]

Washington, April 11, 1957.

SUBJECT

April 9 Meeting of the Advisory Committee to Consider Oil Imports [2]

The meeting was attended by Mr. Murphy representing the Department, accompanied by Mr. Beckner and Mr. Rutherford of FSD.

Mr. Gray opened the meeting by referring to his extended informal consultation last week (Wednesday, April 3) with Messrs. Hoover, Flemming, Anderson and Warren. The following represented the substance of the advice and conclusions of that group:

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[1] Source: Department of State, Central Files, 100.4/4–2557. Confidential; Limited Distribution. This memorandum and Document 251 were sent to Murphy under cover of a memorandum from Kalijarvi dated April 25. Kalijarvi noted that since the Advisory Committee did not maintain official minutes of its proceedings, the attached Memorandum for the files, which was prepared at Murphy's request, should be considered as unofficial and for Departmental use only. (Department of State, Central Files, 100.4/4–2557)

[2] Reference is to the President's Advisory Committee on Energy Supplies and Resources Policy.

1. Answered affirmatively Mr. Gray's query as to whether, at *some* level, imports would become a threat to the domestic industry. Agreed that the level of imports indicated for the second half of 1957, 14 per cent (the figure for imports into total U.S. but excluding Canadian or, alternately, for imports into Districts I–IV, with no exclusions), was too high.

2. Believed that District V as a deficit area should continue to be left outside of any formula. Thus, the Committee should continue to concern itself only with Districts I–IV.

3. Was at first inclined to recommend the continuance of exceptions for imports from Canada and Venezuela. Concluded, however, that it would be best to have no named exceptions, by region or by country. Instead, an arrangement should be devised which would establish priorities for the several regions within the overall formula; first priority to be given to Canada; second priority to Venezuela and/or the other Western Hemisphere countries; third priority to the Middle East; fourth priority to the Far East.

4. Suggested that a proportion then be arrived at to be applied to Districts I–IV, applicable to imports from any and all sources. The figure of 11.4%, representing the record for the first quarter of 1956, appealed to the group as a reasonable and acceptable figure. (Presumably this was a period when imports had been pretty much in line with the objectives of the Committee; on the other hand it is seen to represent a certain increase over the 1954 ratio of 11.26).

5. A new element in the arrangement would have to be some sort of an assigned allowable for each importing company. Such assignments would be made by the Government (ODM). The allowables would take into consideration: historic import pattern for each company; and amount of investment overseas; relationship of imports to own domestic production or domestic purchases; whether company was taking advantage of cheap imports only for short-time gain; etc. Additionally, a "kitty" would need to be set aside to allow for the growth factor of new importers.

6. This plan, or arrangement, would be *in lieu of a certification to the President under Section 7*. Mr. Warren questioned how the promulgation at this time of such a plan could be consistent with the December 4 statement of Dr. Flemming, that scheduled imports for 1957 were at that time too high and that a certification would have been made except for the Suez crisis. Finally however, Mr. Warren agreed that it was preferable to do something or anything—if a certification to the President could thereby be avoided.

(Mr. Gray himself had an opportunity within the last day or so to mention this matter to the President; the President made it clear that *he does not want the oil import problem on his desk*.)

Mr. Gray went on to mention that on Thursday of last week Mr. Brownlee had volunteered to convene the industry task force which had worked in 1954–55 and last fall with the Advisory Committee. The next day Mr. Brownlee had to withdraw this offer, because of pressure from his business associates.

Mr. Gray mentioned that Mr. Hoover and Mr. Warren are currently discussing the oil import question with the independent and the major oil companies to see what their feelings are at this time. At a meeting with Mr. Hoover (subsequent to the group meeting last week), Mr. Hoover's final suggestions to Mr. Gray were as follows:

(1) Any new statement on oil imports should be announced prior to the April 27–28 meeting of the IPAA;
(2) The standards set forth in the February 1955 report of the Advisory Committee must be maintained in substance;
(3) The plans of the importing companies for 1957 must be reduced;
(4) Otherwise (as a threat), the issue would be certified to the President under Section 7 with recommendation that "semi-voluntary" restrictions, as outlined above, be placed in effect by the Government.

Mr. Gray thereupon summed up his understandings of his own present possible courses of action and of the Committee:

1. Immediate certification to the President under Section 7, following up the procedures initiated by Dr. Flemming or,
2. Attempt once more to obtain "voluntary" compliance with an import formula. This is to be done with the threat of certification looking forward to the imposition of "semi-voluntary" controls.

At this point Mr. Gray offered the matter to the Committee for discussion.

Mr. Humphrey immediately and emphatically stated that the Government *must* continue its efforts to obtain the desirable import relationship through "voluntary" efforts. He said that the alternative—Government control—is so tremendous in its implications that it can only be the very last resort.

Judge Hansen stated that, although he had not participated in the early deliberations of the Committee, he did not at all agree with the basic philosophy of attempting to restrict imports. In his view it is much more desirable to conserve United States reserves and to use imports liberally to satisfy our current demands.

Mr. Murphy stated that any arrangement would be attractive which would relieve the Government of the necessity of acting under Section 7. He expressed the view of State that imports are not yet at such a level as to threaten the national security; he agreed with Judge Hansen that the conservation, rather than the depletion, of United States reserves might be desirable—if they are in fact not limitless.

Mr. Humphrey pointed out that it is imperative that the United States industry keep up its incessant search for new discoveries, and that it is thereby imperative that the domestic industry continue to be provided with adequate incentives for exploration.

Mr. Gray inquired how the Committee would go about devising a new formula. Mr. Humphrey suggested that an earlier procedure be followed and that a task force be set up to develop ideas. Mr. Stewart (Director, Office of Oil and Gas of Interior) suggested that Messrs. Hoover, Anderson and Warren could block out the broad outlines of a new plan and that his own office could then fill in the statistical details.

Mr. Gray inquired whether the attempt should be made to put the new plan into effect without the company allocations. Mr. Humphrey strongly recommended such a course of action.

In regard to the forecasts for 1957, which indicate substantial excess, Mr. Stewart observed that it had always been the case that actual imports were considerably lower than the forecasts had indicated.

Mr. Gray inquired whether an effort should be made to meet the deadline of the IPAA meeting later this month. Mr. Humphrey and Mr. Wormser said that this was not necessary and that it would be much preferable for the Committee to work along in an unhurried manner.

Mr. Gray referred to the question of his authority or power: could he tell the companies what to do, or could he merely recommend to them? Could he call them in to consult, and ask their advice? Judge Hansen made it clear that the companies could not come together to devise plans on a joint basis. Mr. Humphrey noted that suggestions could be elicited from the companies on an individual basis. He went on to observe that both sectors of the industry, the independent producers and the importers, would accept any moderate, reasonable plan because of their very acute realization that Government controls would be harmful to all concerned.

In regard to the one new element in the plan now to be devised—the establishment of regional or country limitations—Mr. Gray remarked that he had already received a telegram from Ambassador Richards in the Middle East pointing out that restrictions which would work against the Middle East countries would prejudice the spirit and the implementation of the Eisenhower Doctrine. Mr. Murphy remarked at this point that such allocations might be advantageous because they would show the countries of the Middle East that the United States is not at all dependent on that area as a source of supply; this would thereby serve to deflate some of the ideas current there as to the strategic importance of their oil.

In connection with the possibility that it might be necessary to eliminate the preferential position which Venezuelan oil has occupied in the past, Mr. Gray asked Mr. Murphy whether the Department of State would continue to be in a position to take care of Venezuelan sensitivities; Mr. Murphy replied in the affirmative and indicated that he did not believe that this would be an insurmountable problem.

Mr. Kendall (ODM Counsel) attempted to summarize the deliberation: The Committee is undertaking to devise a new or modified formula in regard to the desirable import levels to be achieved in Districts I–IV; this will include imports from all sources of supply, but will set up certain limitations to be applied to these various sources. Ideas for such a new plan are to be suggested by the working group which has contributed significantly to the Committee's efforts in the past: a group composed of Mr. Gresham, Mr. Beckner of State and members of the Office of Oil and Gas of Interior. It was hoped that the Committee could meet again next week to consider some tentative plans to be developed by that working group.

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249. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Under Secretary of State (Herter)[1]

Washington, April 20, 1957.

SUBJECT

Selective Tariff on Petroleum

You have asked for comments on the question of a selective tariff on petroleum, as a device to deal with the problems of oil imports as related to national security. Senator O'Mahoney[2] has recently suggested that there be a tariff on petroleum high enough to discourage imports of oil from sources where the cost of production is low.

Presumably, a selective tariff would be directed primarily against Middle East sources where the cost of production is the lowest in comparison with the United States. Such a selective tariff could be couched in geographical terms, or it could be based on varying rates for oil of differing gravities. This latter would be a more adroit way of discriminating against Middle East oil, which is mostly high gravity, in an effort to favor Venezuelan oil, an important portion of which is low gravity.

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[1] Source: Department of State, Central Files, 411.006/4–2057. Confidential. Drafted by Willis C. Armstrong, Albert E. Pappano, and Rutherford. Sent through Dillon.

[2] Joseph C. O'Mahoney. (D.–Wyoming)

The Department has had ample experience with selective tariffs and has studied this particular problem on other occasions in recent years. During the 30's and 40's, for instance, we had in effect a tariff quota which permitted a given amount of imports to enter the country at one rate, with a higher rate applied on the excess over this quota. Since the negotiation of a Venezuelan Trade Agreement in 1952, we have had a tariff which differentiates according to the gravity of the oil: higher gravity oils pay 10½ cents per barrel, lower gravity oils, 5¼ cents per barrel. These duties are, of course, applied to oil from all sources, by reason of our Most Favored Nation principle. Tariffs at these rates do not have any discernible effect on the flow of oil imports, because in ad valorem terms they are insignificant. A tariff high enough to affect the rate of flow of imports would have to be in the neighborhood of a dollar a barrel.

The tariff could be raised by either of two methods. The President could increase it under the authority of Section 7 of the Trade Agreements Extension Act of 1955, although this would probably be challenged in the courts as an invasion of the prerogative of Congress to make tariffs. Alternatively, the Administration could ask for new legislation to raise the tariff. The adoption of such measures, either by the President or by legislation, would probably lead to the abrogation of our trade agreement with Venezuela, our FCN treaty with Iran,[3] and possibly a number of other international commitments.

The only countries against which we assess a selectively higher tariff are the countries of the Soviet Bloc, by virtue of denying MFN treatment. The proposal for a tariff on petroleum selectively applied on a geographic basis to the Middle East would single out Saudi Arabia, Iran, Iraq, and Kuwait for more severe treatment than we accord to the USSR and satellites.

If selectivity in tariff treatment were achieved by a tariff containing gravity provisions, this would favor Venezuela, but would not get around the problem of Canada, where oils are also of substantially high gravity.

No selective tariff could in effect exempt Venezuela and Canada, two of our best markets for exports, from its application. Such a tariff would enormously complicate our relations with these two countries, both economically and politically.

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[3] Reference is to the Treaty of Amity, Economic Relations and Consular Rights with Iran, signed at Tehran August 15, 1955, and entered into force June 16, 1957; for text, see 20 UST 899.

We feel that we are well enough informed on the implications of the proposal to suggest that no further study of it is deserved. You are no doubt aware of the fact that we have suggested to Mr. Murphy, in connection with his representation of the Department on the President's Energy Supplies and Resources Policy Committee, that the Committee re-examine the entire basis for its February 1955 recommendation that imports should not exceed a fixed percentage of domestic production.

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250. Memorandum From the Director of the Office of Defense Mobilization (Gray) to the President [1]

Washington, April 23, 1957.

Section 7 of the Trade Agreements Extension Act of 1955 requires the Director of the Office of Defense Mobilization to advise the President whenever he has reason to believe that any article is being imported into the United States in such quantities as to threaten to impair the national security.

Under authority of this law and under authority of your assigning to a committee of Cabinet members consideration of energy supplies and resources policy, quite extensive investigation has been made of the effect upon national security of crude oil imports into the United States. The investigation clearly established that the rate of imports could reach a point at which the incentive for exploration and development in this country would be so reduced as to make us dependent upon overseas oil supplies to meet our national energy requirement. Further, the investigation gave substantial support to a finding that a significant increase in imports over the level of imports in 1954, unless accompanied by a similar increase in domestic production, would threaten this impairment in our national security. Your committee reaffirmed this finding on October 17, 1956, and my own investigation during the past month supports it.

Upon the basis of present imports and their trend over the last several years, together with forecasts of their trend in the next few months. I do hereby advise you, pursuant to Section 7 of the Trade Agreements Extension Act of 1955, that I have reason to believe that crude oil is being imported into the United States in such quantities as to threaten to impair the national security.

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[1] Source: Eisenhower Library, Areeda Papers, National Security Council: Oil. Drafted by C.H. Kendall.

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251. Memorandum for the Files, by M. Robert Rutherford of the Fuels Division, Office of International Trade and Resources [1]

Washington, April 24, 1957.

SUBJECT

Meeting of the President's Advisory Committee on Energy Supplies and Resources Policy, April 24, 1957

Invitations for this meeting had been extended by telephone and on short notice; no indication of the agenda was given. The meeting was attended by Mr. Murphy, accompanied by Mr. Rutherford of FSD.

Mr. Rutherford had learned informally, in advance of the meeting, that Mr. Gray would possibly present a proposition to the committee which would involve in some manner the certification to the President of the oil import issue under Section 7 of the Trade Agreements Extension Act of 1955. Mr. Rutherford suggested to Mr. Murphy that the following three points would represent the substance of the Department's established position on the oil import issue:

(1) Can not agree that the fixed 1954 ratio of imports any longer represents the desirable proportion of imports,

(2) Can not agree that imports are yet of such a level as to threaten the national security,

(3) Therefore, can not join in an Advisory Committee approval of action by ODM to certify to the President under Section 7.

Upon calling the meeting to order, Mr. Gray informed the committee that his certification to the President under Section 7 was already en route to the President. Mr. Gray had also recommended to the President that: (1) the Presidential consideration of the matter should be undertaken by a panel of three prominent industry consultants, and (2) ODM be directed to pursue with the importing companies further an effort voluntarily to reduce imports in the direction of the 1954 formula—in order that the President would have the advantage of knowing whether his own actions could be successfully related to voluntary compliance by the companies.

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[1] Source: Department of State, Central Files, 100.4/4–2557. Confidential; Limited Distribution. See footnote 1, Document 248.

Mr. Gray observed that, at the urging of Mr. Hugh Stewart of the Office of Oil and Gas, he had in the course of the last few days attempted to get in touch with the management of the ten principal importing companies. He had succeeded in talking with eight of the ten companies. His approach was completely rebuffed in one instance, and in the other instances he had received a sympathetic response but no concrete assurances that imports would be cut back. Appreciating the fact that he has no authority to impose restrictions upon the companies, Mr. Gray concluded that he had reached the end of the road in attempting to bring about voluntary restrictions by means of telephone calls and the writing of letters. He felt it imperative, therefore, that the matter be referred to the President and that further undertakings be with the more powerful threat of the authority which lies in Section 7.

Mr. Gray did not request the Committee's comments on this course of action.

He did, however, proceed to the matter of how he might attempt the next round of voluntary restrictions—which he anticipated the President would request him to undertake. He observed that there is general agreement that no arbitrary percentage can be fixed, once and for all, as representing the desirable level of imports. He is, therefore, seeking an estimate of the amount of imports which would permit some growth and yet which would have some relationship to the 1954 standard. He wondered whether such a formula should be applied to the entire United States or only to Districts I–IV. He assumed that it is now well established that Canadian imports should not be considered.

Mr. Gray did not receive any fully adequate response to his inquiry. Mr. Fentress of Interior said that the Office of Oil and Gas had felt that the importing companies would in fact be going a long way in cooperating if they reduced their indicated excess of imports by 50 per cent. Mr. Humphrey made a suggestion, which seemed to be generally concurred in, that Mr. Gray should best approach the independent producing groups to find out how much "give" in the 1954 formula they would cognizance, before he approach the importing companies themselves to seek any reduction in their imports.

Mr. Gray has in mind that all of the import calculations henceforth will be given out to the public; he feels that his greatest hope of enforcement of restrictions lies in this element of publicity. Mr. Humphrey took a different position, saying that the only enforcement possible comes from the fear of the entire industry of legislative restraints on imports, i.e., Government interference in the industry.

Mr. Gray pointed out that the White House announcement of the Section 7 certification will come in time to influence the deliberations of the Independent Petroleum Association of America meeting scheduled for this coming week.

At the conclusion of the meeting, Mr. Murphy informed Mr. Gray privately that the Department of State does not concur in the course of action which is indicated and that the Department wished to reserve its position. Mr. Gray evidenced surprise that the efforts of the past two years have not had the full concurrence of the Department.

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252. Memorandum From the Director of the Office of South American Affairs (Bernbaum) to the Acting Assistant Secretary of State for Inter-American Affairs (Rubottom)[1]

Washington, April 24, 1957.

SUBJECT

Petroleum Problem

Bob Rutherford has just informed me of the following. He had attended the President's Advisory Committee on Energy, Supplies and Resources Policy which took place this morning at 10:30. Gordon Gray announced at that time that he was in the process of certifying to President Eisenhower that petroleum imports had reached a level high enough to jeopardize the national security. Mr. Gray confirmed to the Secretary at a later meeting that he had already made this certification to the White House.

Rutherford was told this afternoon by Dillon that Gray had admitted that the certification to the President was the outgrowth of a political commitment made to the independents last fall. According to Gray, as reported to Rutherford by Dillon, the next step will be the White House investigation of the facts. Gray has already submitted to the White House a panel of five people, all from industry and not in any way connected with petroleum, from which the President may select his investigators. Gray's estimate was that the investigation would take several months. He expects during the interim period to work with the petroleum companies on further voluntary limitations of imports.

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[1] Source: Department of State, Central Files, 411.006/4–2457. Confidential.

An announcement regarding Gray's certification is to be made tomorrow morning at 10:30. I have, therefore, arranged to let Ambassador Gonzalez [2] know about this today in order that he may get the information to his government before the announcement. Bob Rutherford will sit in with me at the meeting. [3]

Preliminary reactions to the above gambit are not nearly so discouraging as one might think. As it looks today, the new investigating committee offers the opportunity for a new look at the 1954 formula, which is the basis of our present day troubles, and the possibility of its revision in the light of events indicating that the country could stand a great deal more in the way of imports before affecting the domestic industry. We have what amounts in effect to a holding operation permitting the government to comply with its commitments at the same time that it is setting in motion machinery which could conceivably right the situation. Naturally there is the danger of an ultimate decision confirming Mr. Gray's findings, in which case the President would be required to impose import restrictions.

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[2] Cesar Gonzalez, Ambassador of Venezuela.

[3] The source text bears the following handwritten notation by Bernbaum: "Gonzalez informed and very appreciative."

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253. Memorandum From the President to the Director of the Office of Defense Mobilization (Gray) [1]

Washington, April 25, 1957.

I have your memorandum dated April 23, 1957 advising that you have reason to believe that crude oil is being imported into the United States in such quantities as to threaten to impair the national security. [2]

The problem of oil imports is one with which I am already generally familiar. As you know, my Advisory Committee on Energy Supplies and Resources Policy has reported to me on the matter from time to time.

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[1] Source: Eisenhower Library, Areeda Papers, National Security Council: Oil. No drafting information is given on the source text.

[2] Document 250.

On the basis of presently available information I agree that there is reason for the belief that crude oil is being imported in such quantities as to threaten to impair the national security. I shall, therefore, cause an investigation to be made to determine the facts as required by Section 7 of the Trade Agreements Extension Act of 1955.

While this investigation is going on I request that you carefully examine into the possibility that oil imports might effectively be limited by individual voluntary action of the importing companies. It seems to me that there would be advantages in adjusting imports in that fashion if it is practicable to do so. If the finding and recommendations resulting from the investigation which I shall cause to be made result in my determining that an impairment of the national security is in fact threatened, it will be important for me to know whether an adjustment of the imports can be accomplished voluntarily, or whether other measures may be necessary. [3]

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[3] The source text is unsigned.

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254. Memorandum for the Files, by M. Robert Rutherford of the Fuels Division, Office of International Trade and Resources [1]

Washington, May 3, 1957.

SUBJECT

Meeting of Working Group with Mr. Gray, Director of ODM, on the Subject of Oil Imports, May 3, 1957

Mr. Gray called a meeting of an informal working group on oil imports late on the afternoon of Friday, May 3. This meeting was attended by Messrs. Kendall and Gresham of ODM; Messrs. Jordan and Miller of the Office of Oil and Gas of Interior, and Mr. Rutherford of FSD, State.

Mr. Gray stated that he sees his task as different from that of Dr. Flemming. Dr. Flemming had attempted to *implement import restrictions* on a voluntary basis; Mr. Gray is merely going *to determine if* restrictions can be effected on a voluntary basis. He believes that this determination can be made in a relatively short period of time—

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[1] Source: Department of State, Central Files, 411.006/5–357. Confidential.

perhaps several weeks. He will then be in position to advise the President whether, in his opinion, import restrictions—if found necessary by the President—could be worked on a voluntary basis.

Mr. Gray intends to protect several basic principles which have already been established as desirable:

1. To avoid discriminating against any country or region by name.
2. To protect Canada as a source of supply.
3. To prefer Venezuela and the Caribbean over the Middle East.
4. To exclude District V (in effect this takes care of Canada).
5. In considering individual companies, to give consideration to historic patterns as well as to recognize the need to make room for new importers.

Mr. Gray is going to meet with Mr. Wood and Mr. Vaughey of the Independent Petroleum Association of America next Thursday, May 16. At that meeting he will be going to carry forward the line of action suggested during the course of the meeting of the Advisory Committee on April 24, i.e., to find out from the Independents how much "give" there might be in the 1954 ratio, and to do this prior to consultation with the individual importing companies in the direction of seeking commitments for reductions in importing plans. Mr. Gray concedes that the import issue is a domestic political question.

Mr. Gray understands that Messrs. Wood and Vaughey have implied—or possibly have stated in so many words—that they would be willing to see the 1954 formula liberalized to the extent of two percentage points. Mr. Gray hopes that they will confirm such a concession to him. He realizes that he may have misunderstood and that, possibly, Messrs. Wood and Vaughey were talking in terms of ²⁄₁₀ of a percentage point. Mr. Gray recalled that Mr. Hoover had referred to the figure recorded for the first quarter of 1956 for total imports into Districts I to IV from all sources, 11.41 per cent, and Mr. Hoover's observation that that figure might be taken to supplant the 1954 ratio, 11.26 per cent; these figures differ by about ²⁄₁₀ of a percentage point.

Mr. Gray observes that the Congressional opinion to which he has been exposed during the past several weeks has emphasized that the *trend* in imports is more important than the maintenance of a static ratio. In other words, it is more important that imports do not zoom upward; it would be agreeable if they increased at a moderate proportionate rate.

Mr. Gray also observed that President Eisenhower has expressed himself as not wishing to be in the position of having been responsible for a general round of price increases—which would almost certainly come about as a result of another increase in crude prices, if imports are in fact held back to the 1954 ratio.

Mr. Gray asked for the reaction of the group to his proposal. Messrs. Jordan, Miller and Rutherford expressed themselves in rather enthusiastic terms to the effect that a liberalization of the 1954 formula at this time by two percentage points would represent a very substantial achievement; firstly, it would represent a breaking of the "sanctity" of the fixed 1954 ratio; secondly, it would represent quantitatively an amount to play with (roughly, an addition of 20 per cent) which might make possible once again to bring actual imports into line with the "desirable" ratio. If the importers can see that they are faced with a growing rather than a fixed ratio, they will be much more eager to hold imports back to the required level.

Mr. Gray inquired whether the group felt that residual should be included; the group replied in the negative. Mr. Gray inquired whether it would be advantageous to calculate imports against a consumption base, as for instance refinery runs, rather than a production base. The group observed that this had in fact been the recommendation of the industry task force last Fall, and that it would have the distinct advantage of providing a base which would itself be growing proportionately (albeit at a small rate).

Mr. Gray asked the group to work out for next week some calculations which would take the above ideas into consideration. Additionally, he suggested that an attempt be made to utilize the quantities represented by the additional two percentage points to first take care of the current importers who did not have a substantial 1954 record.

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255. Memorandum From the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Rountree) to the Secretary of State[1]

Washington, May 14, 1957.

SUBJECT

US–UK Study of Middle East Problems

You will recall it was agreed at Bermuda that the United States and United Kingdom would undertake a review of Middle East problems bearing on the supply of oil to the free world. The

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[1] Source: Department of State, Central Files, 880.2553/5–1457. Secret. Approved by Dulles.

Department prepared a paper setting forth its preliminary views with respect to the main factors involved, which we gave to the British some weeks ago.[2] Rather than preparing a separate paper, the British made comments upon our draft. In succeeding discussions we have now agreed on the attached paper. As indicated in the foreword, the paper is intended to provide a common point of departure at the next phase of the discussions, although it is in no sense a formally agreed document. We have given copies of the present draft not only to the offices of the Department which are concerned, but also to other agencies which participated in the preparation of earlier drafts. While we have not received comments from all of them, I believe that the paper will be found acceptable with minor or no modifications.

We are thus about ready to undertake the final stage of the exercise, namely higher level discussions between the two governments. In this connection John Coulson, who headed the British delegation in talks with us, has informed me that his Government is anxious that the next talks be held in London as soon as possible. While I gather that their representatives have not yet been designated, I understand that Harold Beeley will probably play a prominent role.

I believe that our delegation should include a representative of NEA, a representative of the Policy Planning Staff, and an oil expert. Perhaps the head of the delegation, when designated, might desire other assistants. I would propose that the makeup of the delegation await your designation of the principal representative. We can then suggest a number of names for his consideration.

I have already mentioned to the British the importance we attach to assuring that there will be no publicity regarding the talks. They perceive of no difficulty in this regard, and assured me that they would do everything possible to meet our wishes. If publicity is to be avoided, we will have to treat with particular care the manner in which the group proceeds to London and arrangements for the talks there.

Recommendation:

That we discuss, at some time convenient to you, the designation of the head of the delegation, the manner of communicating with him and the time and place for the meeting.

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[2] This undated paper, entitled "U.S. Views on Middle East Problems Bearing Upon the Supply of Oil to the Free World," is attached to a memorandum of April 13 from Rountree to Herter. An April 6 draft of this paper, which was reviewed at a Departmental meeting on April 10, is attached to the April 8 memorandum from Bowie to Francis O. Wilcox, not printed. (*Ibid.*, IO Files: 60 D 113, IO:Bermuda Conference, Mar. 1957)

[Attachment]

Washington, May 10, 1957.

REVIEW OF MIDDLE EAST PROBLEMS BEARING UPON THE SUPPLY OF OIL TO THE FREE WORLD[3]

Foreword

In accordanee with the "Agreed Position on Study of Middle East Problems" reached at Bermuda, officials of the United States and United Kingdom Governments have separately studied Middle East problems bearing upon the supply of oil to the free world, and have exchanged views based on those studies. The present paper summarizes this exchange of views.

While in no sense a formally agreed document, this paper is intended to provide a common United States–United Kingdom point of departure for the next phase, agreed at Bermuda, of deciding "what further procedural steps should be taken to concert the views of the two governments to bring them into accord as far as possible."

Paragraphs 9, 10 and 14 of this paper report divergencies of United States and United Kingdom views concerning the Persian Gulf sheikhdoms and Saudi Arabia. Paragraphs 16(1) and (11) list several procedures and possible elements of a settlement with respect to the Buraimi issue that might be considered in the next phase.

I. Basic Premises

1. In the next 10 years or so it is unlikely that increased supplies of other forms of energy will be sufficient to make much impact on the demand for oil in the free world. Acceptance of this premise does not, of course, obviate the recognized need for the free world, and particularly Western Europe, to pursue vigorously present and projected plans for the development of alternative sources of energy.

2. Free world demand for oil will increase substantially during the next decade, and the bulk of this additional oil will have to come from the Middle East where most of the world's proved reserves lie. This premise would be dislodged only if very substantial new crude oil deposits were to be found outside the Middle East.

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[3] Secret. Prepared by a Departmental working group coordinated within the Department with ARA, E, EUR, FR, IO, NEA, R, and S/P, and outside the Department with CIA, the Departments of Defense and the Interior, the Maritime Commission, and ODM.

3. A supply of oil from the Middle East in a steadily increasing volume is essential to the economic progress and the strategic strength of the NATO countries.

4. Certain Middle East governments have shown a willingness and capability to deny Western access to oil reserves (Iran 1951–53) and to disrupt Middle East oil transport facilities (Egypt and Syria 1956–57). It is essential that more effective measures be devised to protect the free world's, and particularly the NATO countries' long-term access to Middle East oil and to insure against temporary interruptions of its flow. This requirement confronts the West with the difficult problems of maintaining satisfactory political relations with the Middle East countries concerned with the production and transport of oil, and of securing oil supplies against external attack or internal disturbance.

5. The difficulties and dangers inherent in the free world's dependence on Middle East oil would be intensified if this dependence came to rest upon one or two countries. Two countries, moreover, would not provide what Western Europe currently needs. The United States and United Kingdom should accordingly seek to retain access to the oil resources of all four of the major Middle East producing states: Iran, Iraq, Kuwait and Saudi Arabia. This effort is favored by the heavy dependence of these four countries on revenues derived from the sale of their oil in free world markets.

II. Political Factors Involved in the Protection of Free World Access to Middle East Oil

6. Continued access to Iranian oil seems least likely to be disturbed. Iran has already had a national convulsion over oil; its Government has adopted a pronounced pro-Western stance; it is relatively immune to the fevers of the Arab world.

7. The countries affected by Arab nationalism which directly concern this study are the producing areas—Iraq, Saudi Arabia, Kuwait and the other Persian Gulf sheikhdoms, and the transit countries—Egypt, Syria, Jordan and Lebanon.

8. In Iraq, Kuwait and Saudi Arabia, strong internal and external pressures exist on behalf of policies in common with other Arab states. Extreme Arab nationalism that looks to Nasser for leadership seeks to present itself, with some effect, as the exponent of true Arabism. Strong feelings existing in Iraq and Saudi Arabia over the Arab-Israel dispute, and in Saudi Arabia over continuing differences with the United Kingdom, provide bases for pressure and agitation by extremist groups. While these factors do not appear immediately to threaten continued access to the oil resources of the three countries, the ability of their present leadership to withstand the

extremists would be improved if the bases for pressure and agitation were minimized or removed.

9. Kuwait merits special attention because of the importance of the resources of this sheikhdom to the Middle East oil supply picture. Pressures from indigenous nationalist sentiment, stimulated by Egyptian propaganda, teachers and technicians and by other educated non-Kuwaiti Arabs have been building up. . . . In the view of the United States, a substantial British position in the Gulf is important to continued access to the petroleum resources. . . .

10. The Gulf principalities are at different levels of development, and adaptations of the traditional systems may be desirable in some before others. The conclusion of friendly agreements between these states and Saudi Arabia over current issues would be desirable. In the United States view, the possibility of direct discussions in some cases should be considered and would not necessarily affect adversely the present United Kingdom position. . . .

11. Apart from the Persian Gulf, free world dependence upon Middle East oil transport facilities rests principally on two countries (and to a lesser extent on Jordan and Lebanon). Egypt can block the Suez Canal, and Syria alone can breach the existing and operating Iraq Petroleum Company pipelines and Trans-Arabian pipeline. These, moreover, are countries in which Soviet influence is most extensive, Arab nationalism most extreme and involvement in the Arab-Israel dispute currently most immediate. The economic self-interest of both countries in revenues from these facilities, or pressures from petroleum producers and consumers, will serve to inhibit interference with the facilities in normal circumstances, but developments such as a renewed outbreak of Arab-Israel hostilities could well lead to the denial of both Canal and pipelines.

12. Political realities and common prudences dictate that the United States and the United Kingdom should seek to reduce free world dependence on Egypt and Syria. As there is now no practicable alternative to the Suez Canal, the United States and the United Kingdom must also, however, seek to restore normal conditions in the Middle East, so that the Canal, and the existing pipelines, will be available. Security of transit through the countries concerned depends ultimately on their internal political conditions and on United States and United Kingdom political relations with them. Egypt has, of course, an importance which transcends her position as a transit state. Egypt is, and is likely to remain, a center of anti-Western influence and revolutionary tendencies affecting the whole of the Arab world. It is therefore advisable to consider what can best be done to neutralize this influence.

13. In protecting the continued access to Middle East oil resources and transit facilities, the United States and the United

Kingdom are assisted substantially by elements of strength resulting from the Baghdad Pact, the application of the American Doctrine to the area, the British position in the Persian Gulf and the United States position in Saudi Arabia. In this context, relations between the West and Saudi Arabia are of particular importance. Saudi Arabia has in the past opposed the Baghdad Pact and differences between Saudi Arabia and the United Kingdom in the Persian Gulf area remain unresolved. Saudi Arabia has, however, endorsed the American Doctrine, extended its cooperation with the United States at Dhahran, and has continued its policy of firm opposition to Soviet influence in the area. . . .

14. In attempting to steer . . . in the right direction, the main differences of opinion between the United States and the United Kingdom remain (a) the extent to which the Buraimi issue hampers the cooperation of the Saudi Government with the West, and (b) the extent to which a solution satisfactory to Saudi Arabia could endanger the position in the Persian Gulf. Basically, the difference is that the United States Government believes that a formula can be found which resolves the dispute without undermining the Western position in the Gulf, and that Saudi Arabia's cooperation with the United Kingdom and the long-term Western position in the area would be furthered by a settlement. The United Kingdom Government, while willing to consider any suggestions, is not so far aware of any solution which would satisfy these conditions. At the same time, it believes that, while the existence of the dispute is an inhibiting factor, it need not seriously hamper the evolution of Saudi policy in the desired direction.

15. *Policies at Present Being Pursued.* The United States and United Kingdom are already pursuing, either independently or in conjunction, the following lines of action to preserve and strengthen their relationships with the oil producing states and to protect access to Middle East oil transport facilities:

(i) Giving full support to the Baghdad Pact;

(ii) Carrying out the Joint Resolution on the Middle East passed by the United States Congress on March 9, 1957. (Known informally as the American Doctrine and the Eisenhower Doctrine.);

(iii) Fostering the influence and prestige of Iraq and Saudi Arabia in the transit states;

(iv) Reducing the threat of Arab-Israel hostilities by—

(a) Supporting more effective United Nations action to police the Armistice Lines and to prevent the raids across them;

(b) Maintaining pressure on Israel to adopt a less belligerent attitude;

(v) Strengthening the internal security forces of the producing states;

(vi) Curbing the Egyptian subversive apparatus in the Middle East and diminishing extremist influence . . . ;

(vii) Encouraging an increased awareness of the community of interests between oil producing states and the West, by the use of various information media, and stimulating the Governments of the oil producing states to do the same;

(viii) Maintaining the 50/50 principle in Middle East concessions;

(ix) Assisting the transit companies to secure satisfactory agreements with the transit countries;

(x) Fostering treaty guarantees of the security of new pipelines that may be built in the Middle East and seeking opportunities to obtain similar guarantees for existing pipelines.

16. *Recommendations.*

(i) There should be further United States–United Kingdom discussions of the divergence referred to in para. 14 above. Among other things, the practicability of the following procedures might be considered:

(a) Mediation by the United States;

(b) A resumption of direct United Kingdom-Saudi Arabian talks;

(c) A direct approach by the Sultan of Muscat to Saudi Arabia on border issues, with suitable recognition of the rights of Abu Dhabi as represented by the United Kingdom;

(d) Some system to guarantee the permanency of a border settlement;

(ii) The following might also be considered as possible elements of a settlement:

(a) Saudi recognition of Muscat's sovereignty over inner Oman;

(b) A treaty establishing a neutral zone under the administration of the indigenous tribes;

(c) The return of some of the Buraimi refugees.

(iii) The two Governments should also consider whether steps should now be taken to promote settlements of the various claims to the islands and the seabed of the Persian Gulf. The following might be considered:

(a) An international conference of interested states;

(b) Reference to the International Court of Justice;

(c) Reference to the United Nations International Law Commission for an advisory opinion;

(d) A joint United States–United Kingdom approach to the interested powers proposing agreement on the median line of the Gulf.

(iv) The United States and United Kingdom should seek to promote the restoration of normal diplomatic relations between Iraq and France, and between Saudi Arabia and the United Kingdom and France. The two Governments should initiate enquiries in Baghdad designed to promote the former, and the United States Government should take any available opportunity to persuade the Saudi Arabian Government of the desirability of the latter.

(v) The two Governments should consider measures to restore tolerable relations with Egypt, or at least to mitigate the violence and efficiency of its hostile anti-Western policies.

(vi) There should be further consultation about the problems presented by the activities of Egyptian and Syrian teachers and technicians in the area, especially in Kuwait.

III. Insurance Against Interruption of Middle East Oil Supplies

17. The Middle East producing and transit states will be less disposed to interfere with free world access to the area's oil if they are aware that Western Europe is able to cope with temporary interruptions of the flow of Middle East oil.

18. As was shown in the Iranian oil crisis, the existence of excess developed capacity in the four major Middle East oil producing states enabled the free world to defeat attempts by one of these states to impose unacceptable conditions for access to its oil or to injure Western Europe by stopping oil exports. More recently, the Suez crisis also emphasized the importance of having alternative sources of oil supplies, not only within the Middle East but also from non-Middle East sources.

19. The excess oil producing capacity, which made it possible in 1951 to offset the loss of Iranian oil and which during the last six months minimized the effect of the closure of the Suez Canal and the Iraq Petroleum Company pipelines by means of an oil lift to Western Europe from the Western Hemisphere, is rapidly being overtaken by rising consumption. The US will soon be unable to provide substantial quantities of petroleum from its own production to meet a similar future crisis without imposing drastic domestic rationing, a step that would be taken only in a major emergency clearly threatening the security of the US.

20. It is, therefore, all the more urgent that other alternative sources of supply be sought. In the Western Hemisphere, Venezuela could be a significant source if its productive potential were rapidly developed. Colombia also offers opportunities for development. In the Eastern Hemisphere, North Africa is the most promising non-Middle East source and has the special advantages of close proximity to Western Europe and of being a source of non-dollar oil. Burma and Indonesia, too, offer possibilities. These and other promising sources, e.g. Canada, would together provide the means of giving the free world a useful margin of flexibility in future emergencies. It should be stressed, however, that significant development of these potential alternative sources of supply will require several years of concentrated effort. Flexibility would be yet further enlarged if,

wherever possible—e.g. in each of the four major Middle East producing states—the oil companies were to maintain stand-by producing capacity in excess of current market demand. It is recognized that the maintenance of significant surplus producing capacity might cause difficulties with the governments of the states concerned.

21. The Suez oil crisis also emphasized the disadvantage of not having a surplus of tankers to cope with the increased movements made necessary by the disruption of Middle East transport facilities. The shortage of tankers provided a stimulus to tanker construction, but with a return to more normal conditions—resumption of use of the Suez Canal and restoration of existing Middle East pipelines to maximum operation—tanker fleet owners may be disposed to begin restricting new construction and expediting scrapping.

22. To forestall such action with a view to maintaining surplus tanker tonnage in being, two methods suggest themselves:

(i) Instituting a program to increase petroleum stockpiles in Western Europe thus affording cargoes for surplus tankers. The resulting supplementary oil stocks would greatly ease the immediate impact of a future oil crisis in Europe;

(ii) Providing inducements to tanker owners to withdraw tankers from active service and place them in tanker reserve fleets for emergency use.

23. Substantial expansion of existing pipeline facilities in the Middle East will almost certainly be required to meet the rapid growth in world petroleum consumption, and would provide additional insurance against interruptions in the flow of the area's oil. A number of United States and United Kingdom major oil companies are at present considering the merits of an Iraq–Turkey line. Other alternatives might include an Iran–Turkey line, giving an outlet to the new Qum discovery.

24. Recommendations.

(i) The United States and the United Kingdom should consider immediate steps which they may take, either jointly or individually, to ensure alternative oil availabilities. These might include—

> (a) Encouraging the oil companies to build up and maintain in each of the four major Middle East producing states developed stand-by capacity substantially in excess of current market demands upon these countries.
>
> (b) Encouraging the oil companies vigorously to pursue oil exploration and development in areas other than the Middle East and, where possible, to maintain in those areas developed stand-by capacity in excess of current market demands upon these areas.

(c) Persuading the governments of free world countries outside the Middle East to permit further exploration for and development of oil resources.

(ii) The United States and the United Kingdom should also reach agreement as soon as possible on a program, involving the most practicable combination of oil stockpiling, maintenance of the tanker fleet at a high level and new pipelines, designed to ensure Western Europe, and to the maximum extent possible other free world areas, against temporary interruptions of the flow of Middle East oil. It will be necessary urgently to examine—

(a) The desirability and practicability of encouraging the completion of present tanker construction programs and of discouraging expedited tanker scrapping, both on account of the intrinsic merit of these steps and with a view to providing tonnage for the movement of petroleum to Western European stockpiles or for possible reserve fleets.

(b) The relative merits of tankers over 60,000 dwt. as compared with tankers of 45,000–60,000 dwt.

(c) The availability in Western Europe of below ground storage (mines, quarries, pits, etc.) for between three and six months' crude oil requirements, and the cost and steel requirement of unavoidable above ground tank storage.

(d) The utility of crude oil stockpiling in the Western Hemisphere.

(e) The over-all problems of finance and steel availabilities including an examination of the alternative cost, in terms of tonnage of steel, of pipeline construction on the one hand and of tanker building on the other for a line movement of oil.

(f) The vulnerability to sabotage of pipelines in politically unstable areas.

25. Much preliminary work will have to be done before any firm decisions can be taken on the problems discussed above. Moreover, the consideration of many of them cannot be far advanced without seeking the views and collaboration of the industries concerned. The United States and United Kingdom Governments should each consider how such consultation and collaboration with industry may best be secured in their respective countries.

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256. Editorial Note

On May 24, the Cabinet approved a minerals policy and related program, submitted by the Department of the Interior, designed to preserve domestic capacity in metals and minerals production through subsidies and import excise taxes. The decision was taken despite Department of State opposition on the grounds that tariff or quota restrictions would be contrary to the administration's goal to lower international trade barriers. Documentation on the Department of State's attitude toward these proposals is in Department of State, Central Files 411.004, 411.006, and 811.2543. In a memorandum of May 21 to the Secretary of State, Under Secretary Dillon outlined the Department's attitude on the proposed tariffs on lead and zinc. (*Ibid.*, 411.004/5–2357) Details of the Department of the Treasury's objections are described in Laurence B. Robbins' letter of May 3 to Secretary Seaton. (Department of Treasury Records, Humphrey Papers, Presidential Advisory Committee on Energy Supplies and Resources Policy, The President's Cabinet Committee on Minerals Policy, 1954–1957)

In February 1957, the Department of the Interior circulated to interested agencies a proposed statement concerning a long-range minerals program for submission of Congress. It was considered on an interdepartmental basis and revised several times. The drafts are in the Eisenhower Library: the April 17 draft entitled, "Department of the Interior Proposals for Long-Range Minerals Program," is in the Records of the Cabinet Secretariat, 1953–1960; the May 22 draft is in the Whitman File; and the final draft, dated June 4, is in the CFEP Records.

The proposals approved in May for implementation by Congress provided for: 1) imposition of excise taxes upon imports of lead and zinc to become effective when prices of these commodities dropped to prescribed levels and suspension when prices rose above specified levels; 2) strengthening and intensification of the Department of the Interior's activities in research and technical assistance; 3) the establishment of a continuing program to pay bonuses for a limited production of beryl, columbium-tantalum and chromite as research continued to seek ways making these industries competitive; and 4) making permanent the program of financial assistance for exploration conducted by the Defense Minerals Exploration Administration. The excise taxes were to be equal to the duties recommended by the Tariff Commission in 1954, when a tripling of existing duties was suggested, and were to be imposed in two or three stages, depending on the market price.

257. Memorandum for the Record, by the President's Deputy Assistant (Persons)[1]

Washington, June 3, 1957.

SUBJECT

The Effect of a Rapid Rise of Oil Imports upon the Independent Oil Producers and consequently upon the Adequacy of our Oil Reserves to meet Defense Needs

The President's Appointment with Senators Carlson, Dirksen, and O'Mahoney, at 9:00 a.m. this date.

Senator Carlson referred to the amendment to the Reciprocal Trade Agreements Act which provides for certain action on the part of the President when imports of any commodity rose to the point where it might endanger our reserves for national defense needs. He pointed out the rapid rise of oil imports and the fact that actually the increase is just starting—that new concessions were being given in Venezuela—and indications were that imports would be increased very materially in the comparatively near future. He referred to 16.6 percent of our overall oil consumption as being the figure which the President's Cabinet Committee on Energy Supplies and Resources Policy mentioned as being a reasonable level for imports. He expressed the hope that something could be done on a voluntary basis—within the anti-trust laws—to restrict imports at approximately this level.

The President referred to the impracticability of working out quotas on the basis of fairness although he stated his willingness to consider every practicable means of arriving at a solution. He advised the group confidentially that very shortly he will appoint a committee outside of Government and outside the oil industry to look into all the facts and make recommendations to him. He referred to previous efforts to handle this matter on a voluntary basis because of the inability of persuading two of the companies, Sun Oil and Tidewater, to participate. He further expressed the thought that in his opinion tariff alone would not do the job.

Senator O'Mahoney emphasized what he considered the serious implications of a continued rise in oil imports on our national defense. He went on to state that more and more independent oil producers were finding it difficult to remain in business. He further stated that this matter had a direct impact on the Federal interest as the Federal Government has some 75 million acres of government lands in oil and gas leases. He brought out the fact that this produced a substantial royalty, which was broken down as follows:

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[1] Source: Eisenhower Library, Whitman File, Eisenhower Diaries.

52½%	Reclamation
10%	Treasury for expenses
37½%	To the States for schools and roads

He indicated that Wyoming alone gets $9 million a year in this manner. He emphasized the growing impact on this revenue if steps were not taken to insure the survival of the domestic producer. He mentioned the fact that the legislation under which the President might act was broad and gave the President authority for quotas, tariffs, or import taxes, as means of getting at this problem. He further mentioned that the independent operators are at the mercy of the integrated companies for the sale of their oil as they do no processing on their own.

The President indicated that he was not only interested in the health of the domestic industry but was also concerned with the effect, on national defense and on the states' income, of depletion of our reserves, and that he wished to encourage exploration without causing the marketing of too much domestic oil and thereby unduly reducing our domestic reserves—in other words, he felt that a nice balance should be obtained. Senator O'Mahoney referred to the Federal and State Conservation laws that could be used in this regard.

The President again discussed a quota system and emphasized the difficulty of keeping it sufficiently flexible to take care of new discoveries, such as in Brazil, for example. He emphasized the necessity for finding a flexible formula.

Senator O'Mahoney felt that the tariff would do this, but the President said that some of his advisers had indicated that the solution was not that simple.

Senator Dirksen indicated that information coming to him was that before too long a time we would be swimming in oil from imports and expressed the hope that the matter could be handled on a voluntary basis. He further felt that if a "base period" could be selected which could be agreed upon by the domestic industry, a voluntary quota system might work. He emphasized that this period should not be rolled back too far, as no agreement could then be reached. He further indicated that provisions for newcomers, such as Yemen, Brazil, Libya, should be taken care of in any solution that might be arrived at.

The President emphasized that he wants ideas and wants to arrive at a solution that would be as fair as possible to all concerned. He told the Senators that he would be delighted to hear from them direct or would make arrangements to have them communicate with the committee which he plans to appoint. The Senators advised that they would be very glad to submit to the President a comprehensive memorandum on the subject which could be made available to the committee.

The President requested the Senators to keep confidential the fact that he is going to appoint this committee until he has had the opportunity to complete the composition and make the announcement of the appointment of the committee.

Wilton B. Persons[2]

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[2] Printed from a copy that bears this typed signature.

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258. Letter From the President to the Secretary of State[1]

Washington, June 26, 1957.

DEAR MR. SECRETARY: As you know, I have announced my agreement with the Director of Defense Mobilization that there is reason to believe the present level of crude oil imports threatens to impair national security. Accordingly, Section 7 of the Trade Agreements Extension Act of 1955 requires me to "cause an immediate investigation" to "determine the facts."

I have determined that such investigation should be made by a special Cabinet Committee consisting of the Secretary of State, the Secretary of Defense, the Secretary of the Treasury, the Secretary of Commerce, the Secretary of the Interior, and the Secretary of Labor. This committee for convenience will be known as the Special Committee to Investigate Crude Oil Imports. It will make its investigation and report its findings and recommendations a the earliest practicable date. The Secretary of Commerce will be Chairman.[2]

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[1] Source: Department of State, Central Files, 411.006/6–2657.

In carrying out this vitally important investigation, the special committee should view the national security in its broadest terms, and seek to balance such general factors as our long-term requirements for crude oil, the military, economic and diplomatic considerations involved in obtaining crude oil from various foreign areas, the maintenance of a dynamic domestic industry that will meet national needs in peace or war, and any special significance of imports in different regions of the country.

Sincerely,

Dwight D. Eisenhower

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[2] The White House press release announcing the formation of the special Cabinet committee is printed in Department of State *Bulletin*, July 29, 1957, p. 209. Further documentation on the Committee is in Department of State, Central File 411.006.

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259. Memorandum From the Deputy Assistant Secretary of State for Economic Affairs (Kalijarvi) to the Secretary of State[1]

Washington, June 26, 1957.

SUBJECT

Crude Oil Imports in Relation to National Security

At your request we have prepared the attached memorandum which summarizes our conclusions and recommendations for the Department's position on the crude oil imports problem as related to national security. An underlying memorandum providing the details is in preparation and will reach you shortly.

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[1] Source: Department of State, Central Files, 411.006/6–2657. Confidential. Drafted by Beckner and concurred in by L, ARA, EUR, FE, and NEA.

[Attachment] [2]

SUMMARY AND CONCLUSIONS

1. The national security with respect to petroleum has two aspects:

a) Maintaining and improving the strength of the free world.

The dollars earned by foreign producers in selling crude oil to the United States aid in maintaining high production levels, employment, prosperity and standards of living in the free world. Our oil imports thus contribute toward free world economic and political stability which are essential to our national security.

The opportunity to import crude oil into the United States encourages the outflow of United States capital and of technical and managerial skills for foreign oil development, thereby contributing to United States' access to foreign petroleum resources which are and will be an essential factor in our national security.

b) Assurance of adequate petroleum supplies, wherever needed, in the event of war.

In the event of war, huge quantities of oil must be made available to the United States and its allies to support the Armed Forces and the civilian economies in all areas not lost to the enemy. Definitive answers to these supply and logistics problems are a function of the military, but certain facts are clear. United States domestic oil production can not be increased sufficiently to supply these requirements. In some instances, for example, military operations in the Pacific and Far Eastern areas and the economies of Australia, New Zealand, and Japan must be supplied from foreign sources, in this case largely from the Middle East and Indonesia. Access to the oil resources of Venezuela, Canada, Indonesia, the Middle East and other foreign countries must be safeguarded so that they can be drawn upon to the maximum extent possible. Our oil imports tend to assure us of access to these supplies.

2. Although recognizing the importance of safeguarding our capacity to produce oil, the Department does not believe that crude oil imports at the present level are a threat to the national security.

The Department recognizes that at some point not easily determinable, oil imports might so depress the income of the domestic crude oil producing industry as to discourage the search for oil and thus impair the national security. At this time most indices show that the industry is prosperous and expects prosperity to continue. Restrictions on crude oil imports would probably add little to the industry's effectiveness in finding oil. Therefore, at this time, the Department does not believe that oil imports have increased to a level where the national security is threatened.

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[2] Confidential.

3. The Department is well aware of the mounting pressure for oil import restrictions. If it becomes clear that such import restrictions must be imposed, certain technical and policy questions should be considered.

a) The use of escape clause procedures rather than Section 7 of the Trade Agreements Extension Act of 1955.

Although the domestic crude oil industry demands administrative action under the national security amendment, statements by oil company officials and in the oil press clearly indicate that the industry's primary goal is reduced competition from "cheap foreign oil" in order to secure higher crude oil prices. National security is a convenient cloak covering these aspirations.

Since competition, not national security, is the immediate problem, escape clause procedures under our trade agreements and the General Agreement on Tariffs and Trade would seem to be the appropriate remedy to provide relief against excessive competition. It is significant that the industry is not seeking relief through this method.

b) "Voluntary" versus formal restrictions imposed by the Government.

The "voluntary" method, whereby importing companies, at the suggestion of the Government, individually restrict imports through their normal commercial operations, has been used thus far and has caused few international problems. With the progressive interpretation of the President's Advisory Committee's imports formula, the voluntary method has with few exceptions worked well.

On the other hand, formal Government restrictions might involve the United States in serious difficulties under our trade agreements and the GATT. Our professed support for high levels of world trade would be questioned, especially since the industry protected by the restrictions is obviously prosperous. Earlier, when countries feared we might impose oil import restrictions, vigorous protests were made by the Governments of Canada, Venezuela, France, the Netherlands and the United Kingdom.

c) Preferential treatment for imports from some countries.

Preferential treatment for oil imports from Canada on national security grounds is widely supported. Such treatment, however, would violate the long-standing United States policy of non-discrimination in trade relations.

Preferential treatment for Canadian oil would cause serious repercussions in Venezuela, whose oil is also important to our national security. Preferential treatment for Venezuela would require similar treatment for other Latin American countries whose oil is less plentiful but equally useful in the event of national emergency.

These preferences would represent discrimination against Middle East oil, which is of great economic and strategic importance. Such discrimination could seriously hamper the implementation of the President's Middle East policy.

d) Special treatment for crude oil imports into certain parts of the United States.

This method has been used with respect to the West Coast. It is objectionable because it fragmentizes the country from the standpoint of trade and favors the industries and consumers of one part of the country over those of other parts. This method, if it is to be formally applied by Government action, should be considered in the light of Article 1, Section 9, Clause 6 of the Constitution, which provides that "No preference shall be given by Regulation of Commerce or Revenue to the Ports of one State over those of another . . . ."[3]

e) Import quotas versus increased tariffs.

Import quotas are favored by domestic crude oil producers since they would effectively restrict imports. Quota restrictions would, however, be highly objectionable from the standpoint of United States trade commitments and would undoubtedly be considered by Venezuela as a violation of specific provisions of the Venezuelan Supplementary Trade Agreement. Attempts would of course be made to renegotiate those provisions. It is likely, however, that such attempts would be unsuccessful because of the importance of oil in our trade with Venezuela. There would be a strong probability that the trade agreement would be terminated with possibly serious repercussions for the large United States investments in Venezuela.

Import quotas, unless carefully devised and administered, would make it very difficult for oil importers since they could not know whether the oil they had contracted to import or sell or use would fall within the import quota for a given period. Small importers would be particularly harmed since their tanker arrivals are often unevenly spaced. Imports from distant sources would be at a disadvantage in comparison with sources less distant. Import quotas would tend to discriminate against imports from distant sources.

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[3] Ellipsis in the source text.

The imposition of higher duties would also be highly objectionable from the standpoint of United States trade commitments, and would undoubtedly be considered by Venezuela as a violation of the Venezuelan Supplementary Trade Agreement. To be effective in restricting imports such import taxes would have to be substantial. In effect they would favor low cost sources, such as the Middle East, which could absorb the taxes, and discourage higher cost sources, such as Venezuela.

It should be noted that import restrictions enforced by quotas or higher import taxes would result in higher prices of petroleum products in the United States. They would detrimentally affect every industry and every consumer in every part of the United States. They would add to the inflationary pressures about which the President has recently expressed concern.

RECOMMENDATIONS

It is recommended that you take the following position with respect to the crude oil imports problem.

1. Import restrictions should not be imposed, since a clear case has not been made that oil imports are discouraging the domestic industry's search for oil to such degree that the national security is threatened. On the other hand, continued high levels of crude oil imports tend to safeguard continued access to foreign petroleum supplies which are essential to the national security.

[*Discussion*: It is clear that increased crude oil imports will be required as time goes on in view of the growing difficulty of finding domestic oil reserves. On the West Coast the oil producers recognize their inability to supply the increased demand for petroleum products and are fully adjusted to increased levels of imports. Producers east of the Rockies will ultimately come to the same conclusion.

At present, domestic producers east of the Rockies must adjust also to several unusual factors generally unrelated to oil imports, for example, the great quantities of natural gas and natural gas liquids that must be marketed; the increased capacity of highly efficient refineries which are producing large quantities of light products not readily marketable; and the slowing down of demand due to continued adverse weather in the Southwest, unusually low heating oil demand, and the slower tempo in the over-all economy.] [4]

2. Inasmuch as no formula has been devised which clearly indicates the point at which oil imports threaten to impair the

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[4] Brackets in the source text.

national security, the Committee should avoid the adoption of any formula. The problem before the Committee is one requiring sound appraisal of rapidly shifting elements. The solution should, therefore, be kept open.

3. If in spite of your presentation recommendation "1" above is not adopted, and only if it should be determined that imports must be restricted in some manner, then it is recommended as a fall back position that you urge the adoption of the proposal set forth in "4". The technical, legal and policy questions involved in the proposal, which is derived from the "voluntary" method of restrictions, should be carefully reviewed.

It is believed that this proposal will create a minimum of international complications and should reasonably satisfy even the most ardent supporters of restrictions.

Every effort should be made to prevent the imposition of formal import restrictions.

4. The following program consists of several steps, each designed to meet a specific aspect of the imports problem.

a) Some Federal Government official, preferably the Director of ODM, should be designated administrator of the program. He should determine periodically the total permissible crude oil imports and the quantities each importer may bring in. The latter is necessary since specific determinations for each importer will be required if all importers are to be kept in line. The Director of the ODM is proposed as the administrator because of his high position and his responsibility for dealing with matters of national security.

b) Each prospective importer should be required to state periodically how much crude oil he wishes to import.

c) Importers on the West Coast, which is a deficit area with known crude oil producing capacity and requirements, should be allotted the amounts they request if the total requested by all such importers bears some reasonable relationship to the known import needs of the West Coast.

d) For importers east of the Rockies, the total requested crude oil imports should arbitrarily be cut back somewhat from present import levels in order to meet in some measure the restrictive demands of the domestic producers and disarm their opposition. No drastic reduction from present levels should be made.

e) The administrator should then weigh all of the factors affecting each prospective importer's situation in the area east of the Rockies and arrive at a permissible import figure for each importer. Since thus far no formula has been devised to provide a satisfactory exact answer in each case, the administrator must rely largely on his informed judgment after a review of the facts. The basic factors that should be considered are, of course, generally known, for example, the historic import pattern, reasonable allowance for new importers, and the proportion of foreign crude in each importer's refinery operations. The administrator would have to keep in mind both fairness and practicability in making his decisions.

f) The administrator should scrupulously avoid making decisions as to the country sources of crude oil the importers may tap. This is essential from the standpoint of international relations. Each company, as part of its normal commercial operations, should make its own decision on this question. Producing countries are unlikely to protest seriously against commercial decisions the companies make, but would have grounds for protesting against any United States Government decisions.

g) The decisions of the administrator on permissible over-all crude oil import totals for the West Coast and the area east of the Rockies and the imports permitted to each importer in those areas should be promptly made public. The administrator should not undertake to justify his specific decisions but should confine himself to mention of the general factors in the crude oil situation which he had considered.

h) There is every reason to believe that almost without exception importers would comply with the decisions of the administrator. Nearly all would welcome such a program. If, however, any importer refused to adhere to his import allotment, the case should be referred to the President for formal determination of the action to be taken. The availability of enforcement methods, including the use of Section 7 as an enforcement device, would require further consideration. This should be done by the committee in the course of its deliberations.

5. Regardless of the decision reached on the basic question of whether or not import restrictions should be imposed, the committee should periodically review the level of crude oil imports and the operation of any imports control system that might be adopted. It should make such further recommendations as may be required by the public interest. If some form of import controls, additional to the import taxes now applicable, is deemed necessary, it is believed that the use of a control system, such as the one described above, and a periodic review of the situation by the committee should enable the Government to deal with the problem at this time. Probably no controls over the industry beyond those outlined would be needed.

In the meantime it should become more and more apparent that the area east of the Rockies is becoming a crude oil deficit area requiring ever larger proportions of crude oil imports to domestic demand. It should also become clear that a continued rise in imports is compatible with prosperity in the crude oil producing industry.

260. Memorandum of a Telephone Conversation Between the Secretary of State and the Attorney General (Brownell), Washington, July 2, 1957, 2:22 p.m.[1]

B returned the call and the Sec said re oil business—he is worried about some aspects of it because he has the feeling this business about the national security is a good deal of window dressing. B agrees. What they are doing, said the Sec, is to try to put the price of oil up and put more of the Texas wells into production and accelerate new drilling which will only happen if the price goes up. They are beginning to run dry and it takes more drilling to get the same amount of oil as before and so the cost is higher. B said the Sec's rep on the Comm does not faithfully reflect his views.[2] The Sec said he has no rep—Hoover is a consultant. The Sec does not want to go to jail in his later years instead of retiring to Duck.[3] The Sec does not know if there are aspects that give B concern. B said they are concerned and he made it clear if the govt broke down the formula for imports into individual companies we thought it would be a violation of anti-trust laws and subject to triple damage suits. The Sec mentioned quotas to the companies. B made it clear to the contrary. Humphrey and Adams understood and Gray got it in writing. B said if it affects quotas by companies it is definitely illegal. If they want to continue the present thing that imports should not rise above the 1954 levels we think—the Sec interrupted and gave a formula—something about the area east of the Rockies should not exceed 11% of the total. B said if they get together it is a violation of the law. B mentioned its involving a statement by the Pres—these are the factors and we think it is in the best interests of the country. But they can't get into sanctions and they can't get together. The Sec said only in theory each makes a contribution to the whole but can't sit down. B agreed and said it was the situation for the last two years. B said if it would help to have them attend the meeting they would be glad to do it. B asked they not be on the Comm but rather act as counsel and be called in as needed. The Sec will let him know.[4]

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[1] Source: Eisenhower Library, Dulles Papers, General Telephone Conversations. Transcribed by Bernau.

[2] Reference is to the Special Committee To Investigate Crude Oil Imports appointed by the President on June 26; see Document 258.

[3] Reference is to Dulles' summer home on Duck Island on Lake Ontario.

[4] On July 3, Dulles called Brownell to say he had been invited to the Monday afternoon meeting on oil. Brownell replied that if he could not be at the meeting on time, he would send Hansen and join the meeting later. (Memorandum of telephone conversation, July 3, 10:45 a.m.; Eisenhower Library, Dulles Papers, General Telephone Conversations)

261. Memorandum From the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Rountree) to the Secretary of State [1]

Washington, July 6, 1957.

SUBJECT

Crude Oil Imports into the United States

In addition to the general policy implications brought to your attention by the E area, [2] and with which I concur, the imposition of restrictions on crude oil imports into the United States is likely to have adverse affects on US relations with the oil producing countries in the Middle East:

1. Oil income is the significant element of the financial resources of the Middle East, constituting the major source of foreign exchange earnings for many countries of the area. In the absence of restrictions, imports into the east coast of North America (principally into the US) might be expected to rise from a current level of 329,000 barrels per day to about 850,000 barrels per day by 1965; this increase would represent to the area additional income of approximately $160 million annually.

2. The restrictions would apply particularly to imports from Saudi Arabia, Iran, Iraq and Kuwait. These countries are not likely to view US action as consistent with our profession of friendship and desire to assist them with their economic development. It might be construed as an effort to exert political pressure, especially by Saudi Arabia.

3. Since the contemplated restrictions are apt to discriminate against Middle East petroleum, they will, once understood by countries of the area, be considered most objectionable; and they are likely to lend encouragement to additional discriminatory economic policies on the part of the Arab League.

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[1] Source: Department of State, Central Files, 411.006/7–657. Confidential. Drafted by Shaw and Burdett.

[2] See Document 259.

262. Memorandum of Discussion at the 330th Meeting of the National Security Council, Washington, July 11, 1957[1]

[Here follow a paragraph listing the participants at the meeting and item 1.]

2. Basic National Security Policy: Stockpiling (NSC 5707/8, paragraph 48;[2] NSC Action No. 1728–b–(6);[3] Memo for NSC from Executive Secretary, same subject, dated June 25, 1957;[4] NSC 5414/1)[5]

Mr. Cutler reminded the Council that when the basic NSC policy paper (NSC 5707/8) was approved six weeks ago, action on paragraph 48 (Stockpiling) was deferred to allow the various departments and agencies better to develop their views. The stockpiling policy approved in 1956 (paragraph 47 of NSC 5602/1)[6] allowed stockpile planning to be done on the basis of a five-year war, but provided for procurement on a priority basis only for objectives based on three years.

In the proposed new paragraph 48 which was now before the Council, the majority Planning Board recommendation would restrict *all* stockpile procurement to the three-year basis; *except* in those limited cases where procurement, within the long-term objectives described in the President's April 1954 directive, is necessary to maintain the vital domestic production component of the materials mobilization base. The Director of ODM, continued Mr. Cutler, had noted at the bottom of the page that in FY 1958 procurement under this policy could include lead, zinc, and battery-grade manganese.

The Defense, Treasury and Budget members of the Planning Board proposed deleting the exception clause and noting that through FY 1959 there *may* be limited procurement of antimony, lead, zinc, and battery-grade manganese. These members feel that the majority language might be interpreted as approval, from a *national security viewpoint*, of the *long-term* objectives.

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[1] Source: Eisenhower Library, Whitman File, NSC Records. Top Secret. Drafted by Gleason on July 12.

[2] NSC 5707/8, "Basic National Security Policy," June 3, 1957, is scheduled for publication in volume XIX.

[3] NSC Action No. 1728 was taken at the 325th meeting of the National Security Council, May 27, 1957. The memorandum of discussion is scheduled for publication *ibid.*

[4] This memorandum from Gleason enclosed a draft paragraph on "stockpiling" prepared by the NSC Planning Board. (Department of State, S/S–NSC Files: Lot 63 D 351, NSC 5707 Memoranda)

[5] For text of NSC 5414/1, "Defense Mobilization Planning Assumptions," April 30, 1954, see *ibid.*, S/P–NSC Files: Lot 62 D 1, NSC 5414 Series.

[6] NSC 5602/1, "Basic National Security Policy," March 15, 1956, is scheduled for publication in volume XIX.

The President commented that he supposed that these members wished to continue this minerals component of a vital mobilization base, but they wished to do so by means of tariffs to protect domestic production of these minerals rather than to achieve the protection through stockpile procurement of these minerals.

Mr. Gray observed that actually at the present time there were only three such items to be procured—namely, lead, zinc, and battery-grade manganese. He went on to point out that if the Council adopted paragraph 48 without the exception clause, as advocated by Defense, Treasury and Budget, such a proposal would appear to override the President's directive of April 1954. He therefore hoped that the exception clause could remain in the new paragraph. In any event, he could assure the Council that we would be out of the business of procuring lead and zinc for the stockpile in a year or two.

The President first suggested the addition of the three specified materials to the exception clause. Secretary Wilson, however, said he would stop the whole procurement of materials for the stockpiles. He had absolutely no confidence in the validity of the stockpile requirements, which he believed were based on concepts of fighting a war along the lines of World War II. He realized that this was rather an extreme position, but he advocated that we quit stockpiling as something that was past in this country.

The President replied that he was not so sure that stockpiling was a thing of the past, in view of what we had been hearing in the discussion of Plan D-Minus. Secretary Wilson, however, warned the President that if we continued to stockpile, the President would have these materials hanging around his neck just as he now had agricultural surpluses. Stockpiling of these minerals was merely a means of supporting domestic production that we do not need in this country.

The President replied that either we have to continue to stockpile these minerals or else we should have to protect domestic production by raising the tariffs on them. Moreover, he was very much afraid of losing friends like Mexico. This consideration was quite apart from the political realities which we were facing in the mining states.

Secretary Wilson replied that he certainly had no objection to recognizing the political aspects which required stockpiling. But it was important not to disguise these political considerations as requirements of national security. The President again stated his opposition to a resort to raising tariffs around the world. If we did so, we were bound to lose our friends.

Asked for his views, Secretary Burgess said that he found himself in agreement with Secretary Wilson. While he did not oppose the purchase of these minerals for the stockpile, he did not wish to have such purchases made in the name of the national security. Mr. Gray noted that battery-grade manganese, at least, did have national security implications.

After further discussion of this matter, the President stated that he would accept paragraph 48 as formulated by the majority, together with the footnotes.

The National Security Council:[7]

a. Noted and discussed the draft paragraph on "Stockpiling" (transmitted by the reference memorandum of June 25, 1957), prepared by the NSC Planning Board on the basis of a draft by the Director, Office of Defense Mobilization, concurred in by the Defense Mobilization Board, as a proposed paragraph 48 of NSC 5707/8; in the light of the views of the Joint Chiefs of Staff, as presented orally at the meeting.

b. Noted the President's approval of the following paragraph and footnotes thereto, for insertion as paragraph 48 in NSC 5707/8:

> "48. *Stockpiling*. The United States should not authorize further procurement* for additions to the Strategic Stockpile authorized under P.L. 520,[8] 79th Congress, beyond the 3-year procurement priority levels, except in those limited cases where procurement, within the long-term objectives described in the Presidential directive of April 14, 1954, is necessary to maintain the vital ~~domestic~~ production component of the materials mobilization base.**
>
> "*This limitation would not apply in those cases where commitments have already been made to purchase or otherwise acquire materials for the Strategic Stockpile or for transfer to it under the Defense Production Act or Commodity Credit Corporation programs, unless any such commitments can be cancelled with advantage to the Government.
>
> "**Through FY 1958 new mobilization base procurement could include lead, zinc, and battery-grade manganese (synthetic dioxide). At the current rate of purchase in accordance with the Presidential directive of April 14, 1954, the long-term objective for zinc would be reached in almost a year and the long-term objective for lead would be reached in almost two years. New purchases of zinc and lead for the Strategic Stockpile will end on the implementation of the long-range minerals program now before the Congress, even if this date precedes the attainment of the long-term objectives."

Note: Paragraph 48 of NSC 5707/8, as approved by the President in b above, subsequently circulated to all holders of NSC 5707/8, and to all holders of NSC 5414/1, "Defense Mobilization Planning Assumptions", as superseding the last two sentences of paragraph 4 of NSC 5414/1.

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[7] Paragraphs a–b that follow constitute NSC Action No. 1747. (Department of State, S/S–NSC Miscellaneous Files: Lot 66 D 95, Records of Action by the National Security Council, 1957)

[8] Reference is to the Strategic and Critical Materials Stockpiling Act of 1946, enacted July 23, 1946; for text, see 60 Stat. 596.

[Here follows discussion of the remaining agenda items.]

S. Everett Gleason

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263. Memorandum of a Conversation, Department of State, Washington, July 19, 1957 [1]

SUBJECT

Meeting of the Cabinet Committee on Limitation of Oil Imports

PARTICIPANTS

Secretary of Commerce Weeks
Secretary of State Dulles
Secretary of the Treasury Humphrey
Secretary of the Treasury Designate Anderson
Secretary of Labor Mitchell
Secretary of the Interior Seaton
Deputy Attorney General Rogers
Assistant Attorney General Hansen
Gerald Morgan, Special Counsel to the President
Secretary of the Air Force Quarles
Walter Wallace, Administrative Assistant to Sec. Mitchell
Fredrick Mueller, Assistant Secretary of Commerce
Dr. Flemming
Dillon Anderson, Consultant
Herbert Hoover, Jr., Consultant
Loftus Becker, The Legal Adviser

The meeting opened with a brief discussion on procedure. At the suggestion of Secretary Humphrey, the committee proceeded at once to consider the alternate recommendations to be made by the committee. It was pointed out by Chairman Weeks that the alternative methods of limiting imports were:

(1) by a tariff adjustment
(2) by imposing country quotas
(3) by imposing company quotas either on a voluntary or mandatory basis, and

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[1] Source: Department of State, Central Files, 411.006/7–1957. Top Secret. Drafted by Becker.

(4) by imposing a limited level of imports and allowing the companies to fight it out as to which obtained its share thereof by analogy to action that had previously been taken in the agricultural field.

Secretary Weeks pointed out that there were serious difficulties with a tariff control because of the low price of Middle East oil. The tariff would have to be very high in order to discourage the importation of oil from that area. A country quota created grave foreign policy difficulties. On the whole, the company quota method, initially voluntarily and mandatory if necessary, seemed to be the best approach although he wanted an examination of the possibility of imposing only a level of imports.

Mr. Rogers spoke briefly on the legality of the first three methods of regulation. He felt that the company quota system would be satisfactory on a mandatory basis if it were not unreasonably discriminatory as respects any company, but he did feel that it would be necessary to give each of the importers a day in court. There was some discussion as to whether and to what extent this requirement would delay the imposition of mandatory controls. Mr. Rogers ultimately expressed the view that the delay would not have to be too long since some of the companies might waive a hearing and the facts to be ascertained were not extremely complicated.

Secretary Humphrey expressed the view that it would be unnecessary at this time to make a final determination of what had to be done in order to impose mandatory controls. He felt that we could try the voluntary controls and thought that the companies wanted to avoid the trouble involved in mandatory controls, so that the voluntary system would work for a couple of years, so long as there was not unreasonable discrimination in the system of voluntary controls. He pointed out that although there were some differences, a voluntary system of controls had been in effect prior to Suez and that it had broken down only as a result of Suez. Secretary Humphrey was strongly of the view that the decision should be made as to voluntary controls without detailed examination of mandatory controls, the latter to be considered if and when a voluntary system broke down.

Secretary Mitchell raised several questions with particular reference to the relationship of this program and national security. He asked whether or not the decrease in exploratory drilling that had occurred during the last six months was due to local factors rather than to increased imports. He questioned whether some of the decrease in exploration was due to the fact that smaller companies could not afford exploratory drilling at present day costs. Even the larger companies were pressed by such costs. He also raised a question as to the approach of the paper in pointing out a decrease in exploratory drilling during the last six months, while during the past ten years there had been an upward trend in exploratory drilling.

During the course of this discussion, Secretary Humphrey expressed the view that the national security determination was based on expectation of what would happen with respect to exploratory drilling. He was assured that such drilling domestically would decrease in the foreseeable future and this did pose a threat to our national security. It was perhaps true that some of this decrease was inevitable and that ultimately we would have to allow more imports, but that was a question that could be faced in reviewing the program.

Secretary Mitchell also pointed out that the price of oil was above the index for prices generally. He suggested further that if we were to take this action with respect to oil imports, there would be a demand that similar type of action be taken in the mineral fields and with respect to fish. It was the sense of the meeting that these other industries were distinguishable.

Secretary Dulles then reviewed the various methods in the light of foreign policy considerations. He pointed out that one basic factor here was the fact that Middle East oil was cheaper and this had a direct impact upon the domestic market and exploratory drilling. Because of the cheapness of Middle East oil, control by tariff would involve far too much of an increase in the tariff. With respect to the proposal that a quota be imposed on countries, the Secretary pointed out the gravity of any such measure in particular relation to our relations with Canada and Venezuela, as well as the Middle East. He regarded that method of regulation as wholly unsuitable in the light of foreign policy considerations. Secretary Dulles also felt that similar foreign policy considerations would not permit us to merely set a level of imports and allow the companies to fight it out as to how this was to be divided up. Such a system might also work out inequitably as among companies, but he felt also that this would merely mean a flood of Middle East oil.

Secretary Dulles thought that the most feasible method of regulation at this time was a voluntary limitation on the basis of company quotas which, in his view, should be clearly qualified to take care of hardship cases. There was then a brief discussion as to whether or not the proposal with respect to Tidewater was unduly harsh on that company, in view of the fact that they had built a large new refinery. Mr. Hoover expressed the view that this might be taken care of by phasing additional imports for Tidewater over a period of time. He did not feel that Tidewater should be permitted to jump from some 22 to 84 in one step. He envisaged increasing Tidewater to 60 or perhaps 80 over this period of time.

Dr. Flemming pointed out that the plan as announced would not include the tables identifying the quotas of the respective companies. He suggested that if there were to be any exceptions or qualifications on the ground of hardship, as, for example, in the case of Tidewater, it would be better to put them into the plan at this time. After some discussion, however, it was felt more desirable to put the plan into operation and then to permit adjustment for hardship cases if such existed.

At this point in the meeting Mr. Hoover circulated to some of the participants and read a revised proposal respecting the treatment of Areas I–IV and Area V. The substance of this change was that there would be some cutback in the Area V program for the last half of 1957 although, as Mr. Hoover pointed out, this cutback would not be serious because in that area importers would be permitted to fill the gap between domestic supply and demand. Secretary Dulles expressed some concern at this because of the delicacy of our relationship with the new Canadian government and indicated that he would take this aspect of the plan under advisement.

Secretary Quarles raised a question as to whether or not there was adequate connection between the proposed limitation program and the national security. He was primarily concerned with the fact that while the plan was being put into effect in order to induce additional domestic exploration, there was no requirement to that effect in the plan as drafted, nor were the quotas related to additional exploration. In this connection it was pointed out that the national security portion of the draft had been rewritten to bring out more clearly the relationship between the limitation program and the national security. It was also pointed out that in consideration of various types of limitation thought had been given to relating quotas to exploratory drilling, but this proved impracticable because some of the companies having large exploratory programs were not importers.

After some further discussion, it was moved by Secretary Humphrey and seconded by Secretary Dulles that the program of voluntary limitation of oil imports be approved in principle, subject to revision of the wording and also subject to revision in detail, and this motion was carried unanimously. Thereupon, Secretary Humphrey and Secretary Dulles left the meeting.

It was further agreed that the draft plan would be revised over the weekend and another meeting would be had on Monday, July 22.

A question was raised as to whether the plan would be discussed in advance with the companies. Mr. Rogers pointed out that the President could not give antitrust immunity under this plan and that discussions between companies on it would be subject to very grave question. He felt that the only contact there should be was that between government and individual companies, and opposed the idea of having such contact in advance. Mr. Becker pointed out that this would occur in due course in the light of the provision for hardship cases, and it would perhaps be preferable to put the plan into effect and then have individual companies approach the government. Mr. Rogers agreed with this approach.

A further question was raised as to whether the plan would be accompanied by an opinion of the Attorney General. Mr. Rogers was unwilling to do this on the antitrust aspects, but did agree to have prepared a memorandum which could be released in conjunction with the plan, pointing out the scope of the President's power under Section 7. It was the sense of the meeting that this would be helpful because it would indicate to the companies that the possibility of mandatory limitation was a very real one.

Mr. Becker pointed out that the Secretary of State desired that after the plan had been finalized there be a reasonable period, on the order of 48 hours, in order to permit the State Department to discuss this matter in advance with governments such as Canada and Venezuela. Secretary Weeks agreed with this proposal but suggested that he be reminded of it at the next meeting.

Following the meeting, Mr. Becker made some minor drafting suggestions to Mr. Dillon Anderson.

264. Memorandum of the Fourth Meeting of the Special Committee To Investigate Crude Oil Imports, Washington, July 22, 1957 [1]

PARTICIPANTS

Secretary of Commerce Weeks
Acting Attorney General William Rogers
Secretary-designate of Treasury Anderson
Deputy Secretary of Defense Quarles
Under Secretary of Labor O'Connell
Defense Mobilizer Gray
Gerald Morgan, Counsel to President
Assistant Secretary of Commerce Mueller
Mr. Wallace, Department of Labor
Dr. Arthur Flemming, Consultant
Mr. Loftus Becker, Legal Adviser, Department of State
Willis C. Armstrong, Acting Assistant Secretary of State for Economic Affairs

Secretary Weeks opened the meeting by reading a letter from Acting Attorney General Rogers regarding the legal position with respect to the establishment of a system of voluntary controls. [2] The letter did not deal with mandatory controls, except in the sense of suggesting that there be a hearing before the adoption of mandatory controls with a formal system of appeals for use thereafter. (Copies of the letter should be available to members of the Committee but were not so available at the time of the meeting.)

Deputy Secretary Quarles raised a question of the interpretation of Section 7 of the Trade Agreements Extension Act of 1955. He pointed out that the language of the Act calls for a finding that items are now being imported in such quantities as to threaten the national security, and he noted that the Committee's recommendations were along the line of considering limitations necessary because planned shipments, to be made in the future, are expected to threaten national security. There was considerable discussion of this point and Secretary-designate Anderson explained the importance of dealing with oil on the basis of plans of at least 3 months and preferably of 6 months. Unless arrangements are reviewed 6 months ahead of time, it becomes impossible to control an immediate situation because tanker charters have been fixed and purchases and sale contracts made. The Committee agreed to use the language "current (as well as proposed)" to describe the situation.

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[1] Source: Department of State, Central Files, 411.006/7–2257. Secret. Drafted by Armstrong.

[2] Not printed.

Deputy Secretary Quarles raised a question as to the wisdom of the 10% figure for reduction in imports by established companies. He wondered what basis had been used to determine that 10% was the right figure. The response was that no figure was endowed with magic significance and that this seemed a reasonable one in terms of the situation. Mr. Quarles noted that it was rather arbitrary.

There was a long discussion of the proposed paragraph mentioning residual fuel oil and distillates. Mr. Becker and Mr. Armstrong had proposed the omission of these items as not within the terms of reference of the Committee. This was recognized as valid, but the point was made by Dr. Flemming that crude oil quotas could be evaded by the importation of distillates, which according to the Customs Court are considered for customs purposes as crude oil, although their essential value is about double that of crude oil as it comes from the well, on a barrel for barrel basis. Everyone agreed that the limitation plan should not be frustrated by imports of distillates of this kind or for that matter by residual fuel oil. Some language was eventually agreed which noted the possibility that "petroleum products" might be imported as a means of escaping from the provisions of the crude oil limitation plan and suggested that the Director of ODM keep an eye on imports of such products, including distillates and residual fuel oil.

There was considerable discussion of the difference in treatment afforded to District V as against Districts I through IV. Mr. Morgan raised the question as to whether discrimination could be effected on a mandatory basis. He implied that if this were not the case perhaps the wisdom of proceeding with the voluntary procedure should be reconsidered in view of existing doubts as to whether it would work. Acting Attorney General Rogers said that from a legal standpoint mandatory controls would have to be non-discriminatory. Secretary Seaton suggested that perhaps the system would not work, perhaps mandatory controls could not be enforced, and perhaps the President should be informed nothing could be done about it. This discussion was relatively inconclusive and also tended to move into the question of whether in fact imports had any effect on exploration. Secretary Seaton said the views available to the Interior Department would not appear to substantiate the conclusion that imports were impeding exploration.

Deputy Secretary Quarles said that the security question had been examined by the Joint Chiefs of Staff and that Admiral Radford had defined the oil resources of Venezuela and Canada as related to United States national security. This led to a general discussion of possible exemption for Canada and Venezuela and of alternative means for limiting imports. Deputy Secretary Quarles suggested that this might be done by raising the tariff considerably, without taking action to limit quantities by quota, either voluntary or mandatory. This evoked some comment on the foreign relations impact of tariffs and of the relationship of the question to provisions of GATT and the Venezuelan trade agreement, in which the views of Secretary Dulles, as stated at earlier meetings, were reemphasized.

The result of this discussion was that Dr. Flemming agreed to look at the formula again to see whether a single formula on a company by company basis could be arrived at under a voluntary system. It was also understood that Acting Attorney General Rogers would examine the legal problems which might stand in the way of the establishment of mandatory controls. At the same time it was recognized that the Committee had approved in principle, at its earlier meeting, the establishment of a voluntary company by company system with no effective controls on imports into District V.

There was a brief discussion of the domestic political atmosphere and of the possibility of legislation which would be more restrictive than the voluntary plan being considered. Secretary Weeks indicated he did not think that there was much chance of legislation at this session if action was not taken to limit imports, but that there would be a real problem when the Trade Agreements Act came up for renewal next year.

In the course of these discussions the Committee proceeded, somewhat slowly, with redrafting the report. It was agreed that the Committee would reconvene at 4:00 p.m. on July 23 to continue the redrafting with the idea of having a report prepared by July 24 if possible.

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265. Memorandum of a Conversation Between Secretary of State Dulles and the Venezuelan Ambassador (González), Department of State, Washington, July 23, 1957 [1]

SUBJECT

Action by U.S. Government Regarding Oil Imports

The Secretary told Ambassador González that he sought this opportunity to discuss the action pending by the United States

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[1] Source: Department of State, Central Files, 411.006/7–2357. Confidential. Drafted by Rubottom on July 26.

Government with respect to restricting oil imports.[2] Since the Suez Canal crisis they had increased sharply, to the point of constituting a menace to oil development in the United States and hence our own national security. The Secretary referred to the action of President Eisenhower in establishing a Cabinet Committee chaired by Secretary of Commerce Weeks and on which he sat along with the Secretaries of Interior, Treasury and Labor and the Attorney General. He said that he had participated actively in the Committee meetings and that, while the Committee's work had not yet been completed, he thought it was now timely to consult with the Ambassador in order that he might report directly to his country. We recognize the importance of petroleum in our relations with Venezuela.

The Secretary said that it appeared that the Cabinet Committee's recommendations to the President would be along lines so as to permit the following conclusions to be drawn:

(1) Restrictions to be applied would be on a voluntary basis, at least in the beginning, and would be applied to companies rather than to countries.

(2) Companies would be expected to fall back approximately to the level of their 1956 imports into the United States and would have to restrict their imports for the second half of 1957 which were "extravagant".

(3) The formula to be applied for the percentage of imports would be somewhat in excess of that which had been applied by the Cabinet Committee in February, 1955 (i.e., the 1954 ratio).

(4) There would be no discrimination with respect to countries or geographical areas of the world, although the fact that no restrictions were contemplated for District 5 would tend to give somewhat more favorable treatment to the countries shipping oil to that area.

(5) U.S. import restrictions now would be advantageous to exporting countries in helping to maintain a satisfactory price for their oil since the prices paid them are based on U.S. Gulfport prices.

(6) The plan contemplated would permit foreign oil-producing countries to share in the growth of the U.S. market.

Ambassador González expressed his appreciation and that of his government for the opportunity to discuss this subject with the Secretary. He acknowledged that oil was absolutely vital to his country. He was certain that Venezuela's interests were not being overlooked by the Secretary and the Department of State. They recognized the heavy pressure against imports led by the independent oil producers of the United States. The Secretary interjected to remind the Ambassador of what he had pointed out to the Venezuelan Government at the time of his visit to Caracas in 1954, namely that U.S. exporters to Venezuela, who have at least as much at stake in maintaining a market here for Venezuelan oil as does Venezuela herself, are politically unorganized, thus making it all the more difficult for the Department to portray the importance of our two-way trade with Venezuela.

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[2] In a memorandum of July 23 to Dulles, Rubottom stated that González was calling at the Secretary's request and noted: "This is in accordance with our practice of consulting informally with the countries most concerned with our oil import policy. These exchanges of views not only serve to keep those countries informed of current developments but also provide them with a sense of participation in the formulation and implementation of the policies we adopt." (*Ibid.*)

The Ambassador said that he would communicate immediately with his Government. The Secretary cautioned the Ambassador to make clear that the program is wholly tentative and subject to final approval by the Cabinet Committee and then the President. The Secretary, in answer to the Ambassador's query, estimated that it would be at least three or four more days before any announcement would be made, perhaps more.

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266. Memorandum of the Fifth Meeting of the Special Committee To Investigate Crude Oil Imports, Washington, July 23, 1957 [1]

PARTICIPANTS

Secretary of Commerce Weeks, Chairman
Secretary of Treasury Humphrey
Secretary-designate of Treasury Anderson
Secretary of Interior Seaton
Acting Attorney General Rogers
Deputy Secretary of Defense Quarles
Under Secretary of Labor O'Connell
Mr. Gerald Morgan, Counsel to the President
Dr. Arthur Flemming, Consultant
Assistant Secretary of Commerce Mueller
Representative of Office of Defense Mobilization
Mr. Loftus Becker, Legal Adviser, Department of State
Mr. Willis C. Armstrong, Acting Assistant Secretary of State for Economic Affairs

The entire meeting was devoted to drafting and redrafting the proposed report of the committee, beginning with the conclusions and recommendations. Secretary Seaton suggested elimination of reference to the "current level of imports", as being a threat to national security. He said that nobody from the Oil and Gas Division of the Department of the Interior would testify that the current level would impair the national security, although they all had a hunch that the proposed level might. There was considerable debate on this point, which resulted in the conclusion that the committee would not make a finding that the national security was impaired by the current level of imports within the meaning of Section 7 of the Trade Agreements Extension Act of 1955. It was felt preferable to make a finding that the present and proposed level threatened the national security to the point where a limitation on imports was required, but that there should be no formal finding, because of the implication of the need for mandatory action if such a finding were made. A primary factor in the conclusion not to invoke Section 7 was the point made by the Acting Attorney General that a finding might imply a preparedness to proceed with mandatory action. He noted that no plan for mandatory action had been developed, and that the proposed voluntary plan might not be in accordance with the Constitution if it were tried on a mandatory basis, because of the discrimination between East and West Coasts.

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[1] Source: Department of State, Central Files, 411.006/7–2357. Secret. Drafted by Armstrong. Sent to Herter under cover of a memorandum of July 29 from Fisher Howe.

There was a substantive discussion with respect to the figures for imports into District V. The report contained the figure 290,000 barrels a day, but the Oil and Gas Division had informed Secretary Seaton that their figure for the difference between consumption and production in the district was 250,000 barrels a day. It was necessary to refer in the discussion to Mr. Hoover's memorandum to the Secretary of State regarding a new estimate for District V which included the figure of 274,000 barrels a day, plus 13,000 barrels allowance for addition to stocks. Dr. Flemming agreed to straighten this out with Interior.

There was also a substantive discussion of the question of procedure for entrance of newer importers into the market. It was decided to have the report refer to the idea of having older importers "move over", so that the Secretary of the Interior could have this as a point to rely upon in dealing with companies.

There was no time for discussion of the national security section of the report, and members were asked to telephone their comments to Secretary Weeks' office before 10:00 a.m. on the following day.

The Chairman said that, if no difficulties with the national security section developed, there would be no need for a further meeting. The report would be presented to the President within a day or so. Mr. Becker and Mr. Armstrong made it clear that they would have to review with Secretary Dulles the new version of the conclusions and recommendations, and that the Department expected a period of at least 48 hours after the President had approved the report before publication, so that representatives of other governments could be consulted and informed.

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267. Letter From the President's Consultant (Anderson) to the President [1]

Houston, Texas, July 24, 1957.

DEAR MR. PRESIDENT: I was glad to learn from Governor Adams' call of June 28, confirmed by your letter of the next day, [2] that you felt I might be of service to you in a consulting capacity on the problem of crude oil imports.

As you know, I have given rather intensive study to the subject these past few weeks, and have participated in several meetings with the Cabinet Committee you named to consider the problem.

It seems to be appropriate to present at this time and in this manner some views which I hold. They are not in any sense inconsistent with the Committee's report; rather they supplement one part of it. They relate to the aspects of the subject on which you named me as consultant, viz., the impact of crude oil imports on the national security. And I have a procedural recommendation which if adopted would seem to give a better dimension of time to our policy, while in no wise interfering with the committee procedure now under way.

I am convinced that the security of the Nation is closely related to the availability of oil, and that the complex problem of maintaining an appropriate balance between imports and domestic production is one which will be with us in more or less acute form for a long time. In view of these circumstances, it has occurred to me that you might want to see certain long term national objectives in this field spelled out and formalized perhaps in the National Security Council, with the Departments of Commerce and Interior participating, in addition to the regularly constituted Council membership.

Let me recount here a few basic facts.

Oil is the source of well over half the energy generated and used in the United States. It has had, along with other energy sources, its highly material bearing on the development of our agricultural, commercial and industrial strength—all in tandem with national security needs. Yet the mobile and flexible qualities of oil have made it much more than merely another source of energy. It is so peculiarly suited for delivery, and for energizing weapons—land, sea, and air—used in modern warfare, that it has come to be a *weapon* itself.

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[1] Source: Eisenhower Library, Project Clean Up. Dillon Anderson served at the President's request as consultant to the Cabinet Committee on Crude Oil Imports from June 29 to July 24, 1957.

[2] Not printed.

Since oil became a significant source of energy less than fifty years ago, we have had ample supplies from indigenous sources.

We have also had enough oil for substantial and profitable exports—both crude and petroleum products.

In two major wars in this century we have had sufficient indigenous production that neither our own cause nor that of our Allies suffered from lack of available oil production.

We had enough excess capacity during the Korean war, when domestic production increased by over 1,000,000 barrels per day.

During the Suez crisis we had enough; albeit with some limits well in sight. Our export-import position was flexible enough to absorb in a short period a net change of nearly a million barrels per day; we increased exports by 700,000 barrels while imports were cut 200,000.

It is significant that, during not one of the four critical periods named, did we produce *all* the oil involved. With each crisis, of the four named, increasing proportions of the oil supply came from elsewhere—the Middle East, Venezuela, Canada, etc. The salient fact seems to be that in each instance we were in a position to produce and we did produce the *difference which counted*. We had, in a healthy domestic industry, the excess capacity which *made the difference*.

It seems clear that we should never let ourselves get into a position where we would find this critical difference unavailable to us in time of emergency. No nation can do for us what we did for the European nations three times in this century.

From the foregoing considerations, I believe we can derive two basic general assumptions upon which NSC consideration might proceed.

First, the United States must have an assured source of energy (including oil in the measurable future) for continued sound economic growth and development as well as the strengthening of our military capabilities. Without such assured sources we can be checkmated in time of peace or denied victory in war.

Secondly, an assured supply of energy—including oil—to our Western Allies is essential to the survival of the Free World as we know it. I believe this latter requirement approaches parity with the first in our strategic concepts.

Where is this oil and what are the salient facts about it? The sources may be roughly classified.

There is Western Hemisphere oil (U.S., Canada, Caribbean, other South America) where supplies are likely to be available to us under emergency conditions. Though the quantities are not unlimited, vigorous exploratory activities, for the most part by U.S. companies, have continued to build up reserves and productive capacity.

There is Eastern Hemisphere oil (chiefly Middle East) where for all practical purposes, productive capacity and reserves are *unlimited*. (It is doubtful that limits as to quantity there will be encountered in this century.)

There are other sources and other methods whereby, at least in theory, additional oil supplies could be made available. Vast amounts of crude oil apparently exist in Rocky Mountain shale, but they are far from competitive with oil (or other available energy sources for that matter) and could be developed only at staggering public expense. This course would presumably be rejected. Another alternative which I believe likewise would be rejected is that of accumulating from domestic or foreign production and at public expense, a static hoard of crude oil in overhead storage or in depleted fields. I believe that these and other possible avenues, such as the refining of coal into oil, will continue to prove to be impractical and unacceptable.

Such methods are seemingly ruled out by the vigorous oil-finding and oil-producing free enterprise mechanism operating throughout the Free World—an international oil industry in which American concerns are predominant. It is apparently clear that much oil remains to be found and the vitality of the industry has been demonstrated in its ability to find and produce oil at a rate sufficient to meet security needs, without requiring large government expenditures.

The determination of the extent to which governmental intervention may be necessary to preserve the vigor of that portion of the industry essential to national security involves the resolution of policy issues and the balancing of political, military, and economic considerations—within the overall framework of basic national security policy. The long term implications of the problem of oil imports are, I believe, disclosed by the following brief analysis:

The economics of the world oil situation are such that for the time being and for the foreseeable future, foreign oil will, unless restricted, flow into the United States in increasing quantities. Oil can be produced in the Middle East (and elsewhere) and laid down in U.S. ports at figures below the cost of finding, producing and transporting it in the United States. This flow of cheap foreign oil at an appropriate level can serve to supplement the domestic supply, facilitate domestic conservation practices, and enhance our friendly relations with foreign producing countries. On the other hand, such an unrestricted flow can become a glut to choke the domestic industry and kill the initiative to explore for more expensive oil in the United States. Additionally, it seems fairly certain that a glut of cheap oil from the Middle East would remain cheap and remain a glut only so long as we do not become dependent upon it.

What then, in general terms, should our objectives be?

We should welcome, it would appear, the importation of oil from the Middle East and other foreign sources, not to displace, but rather to supplement our own domestic supply, and facilitate the use of sound conservation techniques in this country.

At the same time our object should be to ensure that our economic and military strength do not become so dependent on the continued flow of Middle East oil that in time of crisis we would face the unacceptable alternatives of (a) resort to force to hold the source, or (b) suffer the crippling effect of its loss.

We should seek, in the concurrent pursuit of the two foregoing objectives, to achieve a balance, reflected in a permitted level of imports which will preserve the climate of incentives under which a healthy and vigorous domestic industry can continue to develop.

We should foster and encourage in all other ways the development of greater productive capacity and reserves throughout the Western Hemisphere, with first emphasis on the development of indigenous reserves and productive capacities.

I have discussed the matter of possible N.S.C. cognizance of this subject with Secretary Weeks and General Cutler, and for that reason I am taking the liberty of sending a copy of this letter to each of them.

I appreciate, Mr. President, your inviting me to participate in the study of this vital subject and I hope the foregoing ideas and suggestions will be helpful.

Faithfully,[3]

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[3] Printed from an unsigned copy.

268. Minutes of a Cabinet Meeting, White House, Washington, July 24, 1957, 10–11:35 a.m.[1]

[Here follow a list of participants at the meeting and discussion of unrelated subjects. The President presided at the meeting.]

Oil Imports—Sec. Weeks gave a preview of the forthcoming report of the Cabinet Committee. He noted the Committee's tentative conclusion that the anticipated level of imports for the balance of 1957 would threaten national security. He believed the Committee would recommend a voluntary plan for limiting imports which would still provide opportunity for new companies to enter the field. While the Cabinet Committee was not about to recommend specific controls, he felt that should the voluntary system fail the Cabinet Committee would have to undertake to develop mandatory controls.

The President asked if the Committee had decided that a tariff would be useless as a means of controlling imports. Sec. Dulles asserted that a tariff would be the worst possible measure from a security standpoint since it would keep out Canadian and Venezuelan oil but let in Arabian oil—a development that would make the United States dependent on Mid-East oil. Sec. Weeks set forth various possible measures of control, and Sec. Dulles noted the different objections to them from a foreign relations point of view.[2]

[Here follows discussion of unrelated subjects.]

LAM

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[1] Source: Eisenhower Library, Whitman File, Cabinet Meetings. Confidential. Drafted by Minnich.

[2] The Record of Action of this Cabinet Meeting reads as follows: "The President and the Cabinet noted without objection Secretary Weeks' description of the tentative conclusions of the Cabinet Committee and noted further his statement that the Committee would soon complete its final report for the President's decision." (*Ibid.*)

269. Memorandum of a Conversation Between the Canadian Ambassador (Robertson) and the Acting Assistant Secretary of State for Economic Affairs (Armstrong), Ambassador's Residence, Washington, July 24, 1957[1]

SUBJECT

Cabinet Committee Report on Crude Oil Imports

In the course of a lunch at the home of the Canadian Ambassador, I had occasion to inform him generally of the nature of the Cabinet Committee report on crude oil imports.[2] He expressed great satisfaction with the way in which the formula would operate, and with the fact that no practical limitation on Canadian oil was being proposed.

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[1] Source: Department of State, Central Files, 411.006/7–2457. Confidential. Drafted by Armstrong.

[2] *Infra.*

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270. Letter From the Secretary of Commerce (Weeks) to the President[1]

Washington, July 29, 1957.

DEAR MR. PRESIDENT: On June 26, 1957, you established the Special Committee to Investigate Crude Oil Imports. You directed the Committee to report its findings and recommendations at the earliest practicable date.

The Committee's report is attached herewith.[2]

Respectfully yours,

Sinclair Weeks[3]

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[1] Source: Eisenhower Library, Cabinet Secretariat Records.

[2] In a memorandum to Seaton and Flemming, July 29, Eisenhower approved the recommendations of the Special Committee as set forth in the report and directed them to put the recommendations into effect as rapidly as possible. (*Ibid.*)

[3] Printed from a copy that bears this typed signature.

[Attachment]

PETROLEUM IMPORTS

I. Background.

The problem of oil imports, and their effect upon the domestic petroleum industry, was one of the primary reasons that caused President Eisenhower to establish the Cabinet Committee on Energy Supplies and Resources Policy in July, 1954. The President directed the Committee to study and evaluate all factors pertaining to the continued development of energy supplies and resources in the United States, "with the aim of strengthening the national defense, providing orderly industrial growth, and assuring supplies for our expanding national economy and for any future emergency."

On February 26, 1955, the White House released a report on energy supplies and resources policy in which the Cabinet Committee concluded that in the interest of national security imports of crude and residual oils should be kept in balance with the domestic production of crude oil at the proportionate relationships that existed in 1954. The Committee also recommended that these ratios should be re-evaluated from time to time in the light of changing circumstances.

As a result of this study the importing companies were requested to restrict imports of petroleum to the United States on a voluntary, individual basis in conformity with the policies enunciated by the Committee. The voluntary method was chosen as a matter of basic policy in preference to tariffs, quotas, or other methods of mandatory limitation in order to avoid regulatory controls wherever possible.

As a result of considerable debate in Congress upon the subject of petroleum imports, the Trade Agreements Extension Act of 1955 included the following Section (7):

> "(b) In order to further the policy and purpose of this section, whenever the Director of the Office of Defense Mobilization has reason to believe that any article is being imported into the United States in such quantities as to threaten to impair the national security, he shall so advise the President, and if the President agrees that there is reason for such belief, the President shall cause an immediate investigation to be made to determine the facts. If, on the basis of such investigation, and the report to him of the findings and recommendations made in connection therewith, the President finds that the article is being imported into the United States in such quantities as to threaten to impair the national security, he shall take such action as he deems necessary to adjust the imports of such article to a level that will not threaten to impair the national security."

The policy of voluntary restriction worked with reasonable success until the middle of 1956. At that time the schedules submitted to ODM by the importing companies for the last half of 1956 and the first half of 1957 indicated that there would be a sharp rise in imports, and that the volume would be substantially in excess of the proportional relationship that had been recommended by the Committee.

As a consequence of the increased level of imports scheduled for the last half of 1956, the Independent Petroleum Association of America (IPAA) filed a petition on August 7, requesting action under Section 7 of the Trade Agreements Extension Act of 1955.

After the petition had been filed, the Director of Defense Mobilization announced that a public hearing would be held at which all interested parties would be provided with the opportunity of presenting their points of view. This hearing began on October 22, 1956, and was conducted by the General Counsel of ODM. Representatives of persons and groups favoring and opposing action under Section 7 were heard. In addition, at the request of ODM, representatives of oil importing companies made statements relative to their plans for the future. The hearing was concluded on October 24, 1956. Information developed in the hearing has been considered by this Committee.

Early in December, 1956, the Director of Defense Mobilization announced that he was suspending action on the case because of the changed conditions growing out of the Suez crisis. At the same time he made this statement:

> "Import programs of the importing companies recently filed with the ODM show that the plans they had formulated for 1957, if carried out, would be contrary to the Committee's recommendations and would constitute a threat to our national security. This situation, without other intervening circumstances (the Suez crisis), would have left no course for me but to make a certification to the President under Section 7 of the Trade Agreements Extension Act of 1955."

In a letter dated March 6, 1957, the Director requested the importing companies to furnish ODM with more recent estimates of their import plans for the balance of 1957, assuming that normal oil movements could be resumed in the near future.

The estimates for imports during the last half of 1957 were compiled and presented a situation of even greater seriousness than that which prevailed prior to the Suez crisis, for the new schedules were considerably higher than those that were submitted for the fall of 1956.

On April 23, 1957, the new director, Mr. Gordon Gray, advised the President pursuant to Section 7 of the Trade Agreements Extension Act of 1955 that he had reason to believe that crude oil is being imported into the United States in such quantities as to threaten to impair the national security.

The analysis of the petroleum import situation that follows is made, therefore, in the light of the foregoing events.

II. Recent Events.

Review of the oil import levels year by year does not indicate that through the first half of 1956 crude oil imports had reached such a high level as to constitute a threat to the national security. Imports scheduled for the last half of 1956 and for the first half of 1957 were of such a magnitude that in the judgment of the then Director of the Office of Defense Mobilization they would have constituted a threat to national security. However, the interruption of petroleum transportation from the Middle East to the area west of the Suez which occurred in November 1956 disrupted the normal pattern of petroleum movements over a period of several months, and, as a result, the schedule of imports for the last half of 1956, as well as the one for the first half of 1957, was never put into effect.

The program of imports for the last half of 1957 as presented to the Director of the Office of Defense Mobilization during March and April indicated that the importers planned to increase materially the import levels over those of 1956 (See Table I). [4]

III. Effect on National Security.

Your Committee's investigation of the oil import problem has been confined to the effect of the present trend of imports on national security.

It is clear that there is a direct relationship between the nation's security and adequate and available sources of energy. Oil and gas account for two-thirds of all the energy that is consumed in this country. Furthermore, there is no adequate substitute in sight for the foreseeable future. Therefore, we must have available adequate supplies of oil.

We have concluded, for reasons that are set forth later in this section of the report, that if we are to have enough oil to meet our national security needs, there must be a limitation on imports that will insure a proper balance between imports and domestic production.

Before arriving at this conclusion, we considered and rejected, for the reasons noted below, the following three proposals that are based on a policy of permitting imports to follow whatever course they may take:

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[4] Not printed.

1. *Import foreign crude oil and store it in this country within depleted fields or elsewhere.* The practical problems of cost and the physical problems connected with the storage of crude oil would make this solution impracticable from the standpoint of industry and government alike.

2. *Enlarge government participation in exploring for oil reserves which, when discovered, would not be put into production.* Such a course would be costly to an already overburdened government and would be contrary to the principles of free enterprise which characterize American industry.

3. *Encourage increased importations in order that our own natural resources might be conserved.* Your committee has concluded that for the following reasons such a policy would be unsound.

> (a) It would result in a sharp decline in domestic exploration by private enterprise because the industry would have no assurance of an adequate market for domestic oil after discoveries had been made and, as a result, would reduce its exploratory operations. Barring government operations which would be undesirable, adequate exploration and the development of additional reserves can only be generated by a healthy domestic production industry.
>
> (b) Consequently, as the extent of the Nation's useful reserves are not known until they are discovered and developed, the United States would be unable to make a sound appraisal of its petroleum resources because it would not know the extent to which our reserve capacity could be developed.
>
> (c) Furthermore, in the event of an emergency which denied the United States access to oil in other countries and which called for additional availability of domestic oil, the Nation would be faced with the long delays that characterize exploratory activity, as well as with the possible necessity of making large expenditures of public funds for exploration, production, and transportation. In this connection, it should be borne in mind that no matter how large the expenditures might be, it would be impossible to recover the momentum of a vigorous domestic industry.
>
> (d) In brief, such a policy of encouraging importation as a means of conserving our petroleum resources would mean that in an emergency the Nation would be confronted with all of the liabilities inherent in a static, as contrasted with a dynamic mobilization base, including the delays, waste and inefficiency that accompany efforts to strengthen any part of the mobilization base on a "crash" basis.

In the light of the above examination of suggestions looking toward a policy of unrestricted imports, your committee has concluded that if we are to have a vigorous program of exploration in this country by private enterprise in order to care for increasing domestic consumption and to meet emergency needs, and if we are to know what our reserve potential is in this country, it is essential that we follow a policy which will encourage continuation of free enterprise exploration at a rate consistent with the demands of a growing economy.

The latest available figures demonstrate that the amount of oil we are adding to our reserves is not keeping pace with the increase in domestic consumption, in spite of the fact that our reserves are at an all-time high. Indeed, there has been some recent indication of a decrease in exploratory drilling, notwithstanding an increase in domestic demand for petroleum. There has also been a decrease in the number of exploratory crews in operation. It is not possible to attribute this decline to any single cause. The sharp increase in imports programmed by the importers in their report to ODM indicates such a trend of increase in relation to domestic production as will bring about a further decline in domestic exploratory and development activities. This should not be permitted. The time lag between exploration and production requires that we explore today for tomorrow's useable reserves. Any other course will impair industrial expansion, availability of supplies for consumer use, and preparedness for an emergency.

In summary, unless a reasonable limitation of petroleum imports is brought about, your committee believes that:

(a) Oil imports will flow into this country in ever-mounting quantities, entirely disproportionate to the quantities needed to supplement domestic supply.

(b) There will be a resultant discouragement of, and decrease in, domestic production.

(c) There will be a marked decline in domestic exploration and development.

(d) In the event of a serious emergency, this Nation will find itself years away from attaining the level of petroleum production necessary to meet our national security needs.

Your committee recognizes that there are important foreign policy aspects to the problem of limiting petroleum imports. The oil reserves and production capacities of other free nations, as well as our own, are important to our national security. A number of countries inevitably depend in varying degree upon access to our domestic market for their petroleum exports and it must be recognized that it is also in the interest of our national security that our allies and friends have healthy and expanding economies. It is believed, however, that taking all factors into consideration, our national security requires the maintenance of some reasonable balance between imports and domestic production at this time. In light of the foregoing considerations, our recommendations are framed with the objective of limiting imports in order to maintain such a balance and yet to allow other nations to participate in the growth of our domestic demand to a degree consistent with our national security.

It is our conviction that as a Nation we must pursue a careful, considered course that will permit reasonable imports into our country and still stimulate a dynamic and vigorous exploratory and development effort in this country.

IV. Effect on Consumers.

Domestic consumers are utilizing an increasing amount of petroleum products for transportation, fuel, heating and many other aspects of consumer life. In the event of a national emergency, it is essential to these consumers that there be adequate supplies at reasonable cost, both now and in the future. The low cost of imported oil is attractive, but excessive reliance upon it in the short run may put the nation in a long-term vulnerable position. Imported supplies could be cut off in an emergency and might well be diminished by events beyond our control. This vulnerability could easily result in a much higher cost, or even in the unavailability, of oil to consumers. It is therefore believed that the best interests of domestic consumers, as well as of national security, will be served if a reasonable balance is maintained between domestic and foreign supplies.

V. Conclusions and Recommendations.

1. Increased volume of crude oil imports and the proposed imports for the latter half of 1957 threaten to impair the national security. This threat, under existing conditions, requires a limitation on imports. The Committee recommends, therefore, that unless the importing companies comply voluntarily with the import limitation plan hereinafter set forth, you find that there is a threat to the national security within the meaning of Section 7 of the Trade Agreements Extension Act of 1955. Pending the outcome of this voluntary program, this Committee should continue as now constituted.

2. For the initial phase of such a program of limitation, in the interest of national security, the following plan is recommended, to cover the period of the last half of 1957 and the first half of 1958:[5]

a. *Districts I–IV*

i. All importing companies, except those referred to in (ii) below, should be requested to cut back 10% below their average crude oil imports for the years 1954, 1955 and 1956.

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[5] The term "crude oil" as used throughout this plan is oil at the wellhead. [Footnote in the source text.]

ii. In order that small 1954 importers, and companies that have started to import since 1954, should have the opportunity to participate in the United States market on a basis more equitable than if the above cutback were applied to them, it is recommended that companies having crude oil imports of less than 20,000 barrels per day in 1954 should be allowed to import the amounts set forth in the schedules submitted by them to ODM in July 1957, but in no instance to exceed an increase of over 12,000 barrels per day over their actual 1956 imports. (See Table II for analysis of effect of this formula on importing companies.)[6]

b. *District V*[7]

Imports should be determined on a semi-annual basis. Pending a change in the deficit condition now pending in the area by, for example, the development of an economical means of inter-regional transportation, the level of imports must be such as to make up the difference between the demand and the quantity of domestic crude oil available to the area, as established by the Department of the Interior. The schedule of imports for the last half of 1957, as submitted by the companies to the Director of Defense Mobilization appears to be slightly higher than would be called for by the foregoing formula. However, there is reason to believe that the imports for this period will not exceed 275,000 barrels per day and, consequently, no voluntary import limitations are proposed for this District at the present time. This situation should be reviewed, however, during the latter part of 1957 from the point of view of the plans of importers for the first half of 1958, in view of the fact that additional pipeline capacity to the West Coast is scheduled to become available during the first half of 1958. (See Table III).[8]

c. *Imports under proposed plan.*

Districts I–IV		756,000 B/D
Percentage ratio, Imports to Production	12.0	
Percentage ratio, Imports to Demand	9.6	
District V		275,000 B/D
Percentage ratio, Imports to Production	29.8	
Percentage ratio, Imports to Demand	23.3	
Total		1,031,000 B/D

d. New importers should have the opportunity to enter and share in a reasonable manner in the United States market. Companies planning to become importers should present their plans to the Department of the Interior at least six months before their plans are to become operative. A determination should then be made as to the extent these importers should share in the market initially, and as to whether room can be made for them as a result of the increase in permissible imports arising out of the increase in domestic demand or whether it will be necessary for older importers to decrease their imports in order to make room for the new companies.

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[6] Not printed.

[7] See Appendix A for reasons for separating Districts I–IV and District V. [Footnote in the source text. Appendix A is not printed.]

[8] Not printed.

e. All imports into the United States should be for the direct account of the importers, and no importer should be allowed to increase its imports through oil sale and product purchase agreements by transfer of allotments or by other indirect means.

f. The committee recognizes that it would be possible to circumvent this plan by companies entering into certain types of arrangements for the importation of distilled products. We recommend that the Office of Defense Mobilization and the Department of the Interior follow this situation very closely.

3. The plan above outlined should be reviewed by this or some comparable committee at least once a year. Under normal peacetime conditions we believe that such a review should proceed on the assumption that in Districts I–IV an effort will be made to maintain a ratio between imports and domestic production of approximately 12.0% [9] and that in District V imports will be restricted to the difference between demand and the domestic crude oil that can be made available to the area on a reasonably competitive basis.

4. The plan above outlined should be administered by the Department of the Interior under policy guidance from the Office of Defense Mobilization. In the administration of the plan, provision should be made for the hearing and consideration of cases where it is alleged that inequities would result from the application of the plan, with the understanding that the administrator will have authority to establish the necessary administrative procedures and act in such a manner as to alleviate inequities when they are found to

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[9] The relationship between imports and domestic demand would be approximately 9.6%. In this report we have referred to the ratio between imports and production in order to be consistent with the report made by the Presidential Advisory Committee on Energy Supplies and Resources Policy in February 1955. In the future it is recommended that the statistics dealing with this problem be compiled on the basis of the relationship between imports and demand, instead of between imports and production. [Footnote in the source text.]

exist, including any showing that the plan does not provide competitive opportunities for newer importers.

Respectfully submitted,

John Foster Dulles
Secretary of State
Donald A. Quarles
for Secretary of Defense
George M. Humphrey
Secretary of the Treasury
Fred A. Seaton
Secretary of the Interior
James T. O'Connell
for Secretary of Labor
Sinclair Weeks
Secretary of Commerce—Chairman [10]

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[10] Printed from a copy that bears these typed signatures.

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271. Memorandum of a Conference With the President, White House, Washington, July 29, 1957, 9:30 a.m.[1]

OTHERS PRESENT

Mr. Gordon Gray
Mr. Minnich

Mr. Gray referred to the Symington hearings on stockpiling.[2] He said that the Administration, in its testimony, would not attempt to avoid disclosing the three-year basis now in force for stockpiling. He expected that the hearings would pursue the question as to why and how the former five-year policy had been altered after having been set by the President and Cabinet Committee in 1954. The President agreed that it would be in order for Mr. Gray to point out that appropriate further consideration had been given to the matter, that the change had been fully coordinated and approved by the President.

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[1] Source: Eisenhower Library, Whitman File, Miscellaneous Records. Secret. Drafted by Minnich.

[2] Senator Stuart Symington was a member of the Armed Services Committee and Chairman of the Subcommittee on National Stockpile and Naval Petroleum Reserves.

Mr. Gray then raised the problem connected with the rights of several aluminum companies as set forth in contracts signed in 1951 to offer quantities of aluminum to the Government at market prices. Mr. Gray made clear that this provision had been put into contracts at a time when the Government felt it necessary to encourage expansion of aluminum production and the companies needed some assurances for the future. As a sort of quid pro quo, the Government had the right to call on the companies to supply it with necessary quantities of aluminum.

In response to the President's question, Mr. Gray stated that these rights would expire mostly in FY 1958 but that in some instances they might continue until December 1958.

Mr. Gray stated that he had to appear before a Joint Committee on July 30th to discuss this matter and how the Government would handle the situation. Mr. Gray indicated that the current budget would not permit Government purchase of these offerings for the stockpile at this time, particularly in view of the change from a five-year base to a three-year base with the three-year level already attained.

Mr. Gray noted a belief by some officials that the Government should reject these offerings and let the aluminum companies go to court to seek fulfillment of the contract provision if they so desired. His own feeling was that the Government should continue to discuss this matter with the companies, seeking some mutually satisfactory adjustment of the contract.

The President felt that Mr. Gray should make a straightforward presentation to the Committee, stressing the changed situation between 1951 and 1957, and particularly the changed basis for estimating our probable requirements in the event of war. The President could not see at the moment how the aluminum could be bought if it were not budgeted, yet he did not want the Government to lay itself open to a charge of bad faith by an out-of-hand rejection. He believed discussions with the companies should continue.

[Here follows discussion of unrelated subjects.]

L.A. Minnich, Jr. [3]

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[3] Printed from a copy that bears this typed signature.

272. Letter From the President to His Consultant (Anderson)[1]

Washington, July 30, 1957.

DEAR DILLON: Your exposition of the national security effects of unrestricted crude oil imports strikes me as excellent.[2] In the main I agree; I think I disagree only with one point which I find in the first paragraph on page six:

> "At the same time our object should be to ensure that our economic and military strength do not become so dependent on the continued flow of Middle East oil that in time of crisis we would face the unacceptable alternatives of (a) resort to force to hold the source, or (b) suffer the crippling effect of its loss."

I think that you have, in the analysis presented in the letter, proved that should a crisis arise threatening to cut the Western world off from Mid-East oil, we would *have* to use force. You specifically point out that an adequate supply of oil to Western Europe ranks almost equal in priority with an adequate supply for ourselves. You argue that while the Western Hemisphere can on an emergency basis meet the short term requirements of the entire free world, the implication is included that we cannot do this on the long term. Hence my disagreement with the statement to which I call your attention.

By this I mean that you prove the facts of the petroleum world are such that the West must, for self-preservation, retain access to Mid-East oil.

In general, however, I merely express the hope that our long term national objectives in this field can be spelled out and formalized so that they will mean something—in other words, that they will encourage maximum exploration in our country and use of imports as a supplemental, not a ruinous substitute, for our own production.

I was pleased that you were able to devote some of your time to the work of the Cabinet Committee. I know that you were a great help.

With warm regard,

Sincerely,[3]

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[1] Source: Eisenhower Library, Project Clean Up.

[2] Reference is to Anderson's letter of July 24, Document 267.

[3] Printed from an unsigned copy.

273. Editorial Note

In Washington, August 5–9, representatives of the United States and the United Kingdom continued their discussions of the problems of transporting Middle East oil. While in Paris on NATO matters in July, Earl Beckner had informal discussions with officials from the British Ministry of Power about an agenda for talks which would lead to a general study on vulnerability of the West to closure of the Middle East oil transit facilities. (Letter from Willis C. Armstrong to Hugh A. Stewart, August 2; Department of State, Central Files, 880.2553/8–257) The British draft agenda for the talks and a summary of the discussions are attached to a memorandum from Armstrong to Dillon, July 30. (*Ibid.*, 880.2553/7–3057)

As a result of these talks, the representatives produced a joint paper which dealt with the supply and demand situation as estimated for 1960 and 1965, the transport problem in providing oil to Western Europe, and the role of Middle Eastern oil. (Letter from Beckner to Goodman, August 24; *ibid.*, 880.2553/8–2457) It was decided that each government might discuss the paper with oil industry persons cleared to receive classified material. (Memorandum of conversation by Simmons, August 9; *ibid.*, 880.2553/8–957) They agreed to meet again in September to discuss the next joint paper which would consider the following points: government encouragement of the development of sources of supply outside the Middle East, stockpiling, extra pipeline capacity, fleet reserve, pipelines, inducements to reroute, and emergency machinery such as was instituted during the Suez emergency—the Middle East Emergency Committee and the OEEC Petroleum Emergency Group. Summaries of these talks are contained in memoranda of conversation by Simmons of August 5, 6, 8, and 9; *ibid.*, 880.2553. No record of the September meeting and no copy of the joint paper have been found in Department of State files.

274. Memorandum From the President's Special Assistant (Cutler) to the President[1]

Washington, August 8, 1957.

SUBJECT

Dillon Anderson's Suggestion for a National Security Policy on Oil Resources and Supply

1. On July 24, 1957, Dillon Anderson, having completed his services as consultant to the Cabinet Committee on Crude Oil Imports, addressed a letter to you,[2] recommending that long-term U.S. policy objectives relative to the national resources and supply of petroleum "be spelled out and formalized perhaps in the National Security Council, with the Departments of Commerce and Interior participating."

2. With his permission, I have discussed his letter (a copy was furnished to me) with Mr. Gordon Gray, Director of ODM. Mr. Gray believes that the National Security Council would be a proper forum in which to develop such long-range policy relating to petroleum resources and supply. He concluded his memorandum to me thus:

> "If the President were to consider favorably Mr. Anderson's suggestion, I think that the scope of the review should not be limited to the level of oil imports compatible with a proper defense posture, but that an attempt should be made to work out a new long-range petroleum policy, which would take into consideration current military guidance as to the type and duration of any war which would be fought and would reassess the resources and transportability of crude oil and petroleum products, and well as requirements, in the light of estimated attack damage."[3]

3. While I realize that Mr. Anderson's letter refers to long-range policy and not to specific programs related to petroleum resources and supply, such as were before the Council in 1953–1956, I am conscious that in 1956 the NSC divested itself of continued surveillance of oil policy, referring the matter to ODM for development through the Defense Mobilization Board of a mobilization program on this subject and for report to the Council as to the need for further policy guidance, if any.[4]

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[1] Source: Eisenhower Library, Project Clean Up. Confidential.

[2] Document 267.

[3] Memorandum from Gray to Cutler, August 1, not printed. (Eisenhower Library, Project Clean Up)

[4] In a memorandum of August 7 for Cutler, Gleason expressed his opposition to Dillon's recommendation that a new national security policy on petroleum be developed through the National Security Council mechanism. (*Ibid.*)

I have, therefore, suggested to Mr. Gray, because of the highly technical nature of this subject, that I would propose to you that Mr. Gray be authorized, through an interdepartmental committee responsive to the Defense Mobilization Board, to work up the necessary factual background upon which to base a long-range national security policy on petroleum resources and supply, together with long-range policy recommendations based thereon, and submit such recommendations to the National Security Council for consideration and approval by you. Mr. Gray is in agreement with this procedure, subject to your approval.[5]

R.C.

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[5] The source text bears a handwritten note by Cutler stating that it was approved by the President on August 9.

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275. Letter From the President's Consultant (Anderson) to the President[1]

Houston, Texas, August 9, 1957.

DEAR MR. PRESIDENT: I appreciate your generous comments about my recent work on the subject of oil and national security. Your letter of July 30[2] would have had an earlier response except that I have been away from my office most of the time since I saw you in Washington late last month.

The point of our apparent disagreement to which you advert appears to me to expose the heart of the issue to be resolved in long term policy formulation, viz. the *nature and the degree* of dependence on Middle East oil which we as a nation can afford.

I am afraid I failed to express adequately the particular concept which you question, but I believe in it so strongly that I should like to lay it before you again and attempt to show how it is reconcilable with the proposition that in case of a real showdown we would have to use force to retain access to Middle East oil.

I ask in the beginning that it be borne in mind that "access" in such context may vary in meaning, depending on related circumstances, all the way from the full and virtually unrestricted access which we enjoy now to an even more severely restricted access than that which we had last fall for a relatively short period. The latter one triggered action by two of our Allies; I assume that a most material subject of our inquiry would be the degree of denial of access which would trigger similar action by us. This I respectfully submit will depend upon the circumstances existing at the time the issue arises, and my point is that in the meantime and before the issue is presented in U.S. affairs, we can have a great deal to do with the shape and form of those circumstances.

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[1] Source: Eisenhower Library, Project Clean Up. Confidential.

[2] Document 272.

In my humble view, history discloses that *any* nation, whatever its form of government, may have to initiate the use of force when it becomes checkmated in the areas of diplomacy, economics and military preparedness. The decision which actually induced such war may have been made long before in policy formulation, with the result that when such policies produced or permitted the circumstances going to make up the checkmate, no real choice would be left and but one decision could be made.

We are considering, in advance, I believe the critical question that will arise down the line after surrounding circumstances have crystalized—the one which we would hope to answer in terms of continued peaceable methods. It is whether at a given stage our dependence and that of our Allies on this oil is so great that events at such stage present a threat to our own vital security interests. The question then will contain many elements and many related circumstances, the right analysis of each of which will have to go into the answer. Such elements are:

(a) The role of Russia in bringing about such events;

(b) The number of Middle East States involved and likely to be involved in any such shutdown;

(c) The availability of oil and transport from the United States, Canada, the Caribbean, Sumatra (a *vast* lode), and elsewhere; and

(d) The likelihood that oil from other sources on a temporary or even a prolonged basis would be sufficient to "sweat out" the nation or nations which threaten to cut off the supply, or interrupt transportation.

When that time of decision comes, the more we have done and encouraged our nationals to do, in the way of developing alternative sources of oil and in keeping all outside sources more dependent on us than we are on them, the better will be the opportunity to ride it out and avoid either (a) resort to force to retain access to the source, or (b) suffer the crippling effect of its loss.

There are various ways, by tax incentives and otherwise, in which our Government can encourage the already active search by American companies for oil in other parts of the world.

There are likewise various ways in which we can ensure that such producing areas are dependent on our (and our Allies') taking their oil. By our tax and tariff policies we can encourage the building of refining and processing plants *outside* the area of production and in the consuming countries. (A handful of Russian technicians could have operated the Iranian producing areas and the big refinery at Abadan; on the other hand Arabia with limited refining capacity at hand is greatly dependent for continued production upon consuming nations in the free world.)

I firmly believe that we can count on the flow of Middle East oil for a long time if we do not allow the degree of dependence (and that of our Allies) on that single source to become too great. Then we can probably ride out all crises short of Russian intervention; and as to Russia's intervention in the picture, we have a sound and settled doctrine.

I would strike my word "unacceptable" from the paragraph you questioned and cause it to read as follows:

"At the same time our object should be to ensure that our economic and military strength do not become so dependent on the continued flow of Middle East oil that in time of crisis we would face the ~~unacceptable~~ alternatives of (a) resort to force to hold the source, or (b) suffer the crippling effect of its loss."

I do not contend that the foregoing comments more than scratch the surface of the subject. They may be sound, or they may not; but they do appear clearly to indicate that here is a most fertile field for study and policy formulation in the National Security Council.[3]

Faithfully,[4]

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[3] In a letter to Anderson, August 13, Eisenhower wrote: "I agree with your paragraph as re-written. Thank you for giving me your further thoughts on this important and complex subject." (Eisenhower Library, Project Clean Up)

[4] Printed from an unsigned copy.

276. Memorandum of a Meeting of the Special Committee To Investigate Crude Oil Imports, Washington, September 10, 1957[1]

PARTICIPANTS

Assistant Secretary of Commerce Mueller, Acting Chairman
Secretary of the Treasury Anderson
Deputy Secretary of Defense Quarles
Major General Catulla, Defense Department
Secretary of the Interior Seaton
Mr. Gordon Gray, Director, Office of Defense Mobilization
Under Secretary of Labor O'Connell
Mr. Fowler, Consultant to Office of Defense Mobilization
Judge Hansen, Justice Department
Dr. Arthur Flemming, Consultant to the Committee
Captain M. V. Carson, Jr., Interior Department
Mr. Loftus Becker, Legal Adviser, State Department
Mr. Willis C. Armstrong, Director, Office of International Resources, State Department

The meeting opened with the report of Captain Carson concerning the operation of the import restriction program. Captain Carson presented the main points of the report orally, and distributed copies to the various agencies. (Copies of the report are attached to this memorandum.)

Imports during the second half of 1957 will be somewhat higher than the target, but this is natural in view of the fact that the program was not announced until July 29, and that procurement schedules cannot be quickly changed. The decline in import levels has begun, however. Certain problems have emerged. One of them, the fact that there are six or eight small importers who were not listed at all at the time the report was prepared. Another problem arises from the fact that several of the companies listed object to their quotas and have obtained the right to formal hearings to protest the quotas assigned to them. A third problem consists of the fact that such companies as Superior, Ashland, and Crown, have all announced their intention to become importers at the rate of about 25,000 barrels a day each, beginning quite soon. If the total quota may be increased, perhaps these problems can be resolved, but otherwise it will be very difficult. It will be awkward to persuade other importers to reduce their amounts so as to make room for "new" importers". If adjustments are made to allow for all "new" importers a very substantial increase in imports over the recommended level will occur.

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[1] Source: Department of State, Central Files, 411.006/9–957. Official Use Only. Drafted by Armstrong.

Assistant Secretary Mueller presented the case of Socony Mobil which has cooperated fully with the program, but which has requested that certain crude oil from Venezuela, which is of a very high asphalt content, and which Socony imports for processing at an asphalt plant in East Providence, Rhode Island, be exempted from the crude oil quota. Captain Carson had ruled that it could not be exempted, because of the definitions used by the Committee. Assistant Secretary Mueller had felt that this was inequitable. There was a long discussion of this matter. It was recognized that imports of high asphalt crudes were logical for road-building materials and for the chemical industry. It was also recognized that in many cases there was no domestic crude available instead, but that the alternative was to import residual fuel oil. Consequently, it was quite clear that no benefit to the domestic crude oil industry would accrue from restriction on a certain portion of the high asphalt crudes. It was recognized that some 120,000 barrels per day of such asphaltic crudes are normally imported. It was finally agreed that a letter would be written to Socony Mobile by Mr. Mueller which would indicate that no exception would be made in the definition of crude oil, but it would leave the door open to some form of adjustment, in view of the fact that Socony has fully cooperated, and in view of the merits of the case.

There was a general discussion of how to handle "new" importers, and it was recognized that increases in demand could not really be counted upon to satisfy the requirements of the new importers, and that there would, therefore, have to be cutbacks in scheduled imports, by both the new importers and the more established ones.

Under Secretary Quarles brought up the question of Defense Department purchases of jet fuels. The Defense Petroleum Agency has gone out for bids for 35 million barrels of jet fuels, and has received bids from American companies for delivery from a variety of sources. From the standpoint of cost, the arrangement which is most satisfactory is to obtain 8 million barrels off shore. Of this amount 800,000 will be used off shore, and another 800,000 will be delivered on the West Coast. The Defense Department will save around $3 million by this procurement process as against what would happen if it procured all the jet fuel domestically. The law requires it to buy competitively at the lowest price, and there is an exemption of petroleum from the provisions of the Buy American Act. The question was the extent to which it was appropriate for the Defense Department to procure from abroad about a quarter of its requirements for jet fuels, in view of the fact that the government is engaged in trying to limit imports of oil. A general discussion followed, and it was agreed that the Defense Department had no alternative but to proceed with its procurement. It would, however, issue a public statement explaining its action in terms of saving money and the requirements of competitive bidding. It was also agreed that the announcement would not be of such a nature as to involve any question of possible change in the Buy American Act so as to make it apply to petroleum.

[Attachment]

Memorandum From the Administrator of the Voluntary Oil Import Program, Department of the Interior (Carson), to the Chairman of the President's Committee To Investigate Crude Oil Imports (Weeks)

Washington, September 9, 1957.

SUBJECT

Progress of the Voluntary Oil Import Program

1. On July 30, 1957, I was appointed by the Secretary of the Interior as Administrator of the Voluntary Oil Import Program. The Program is that recommended by the President's Special Committee to Investigate Crude Oil Imports on July 29, 1957, and approved by the President on that same date.

2. On August 2, 1957, telegrams were sent to all of the companies listed in Table II[2] of the above-mentioned report, advising them of the quantity of crude oil they should import, on a thousand barrel per day average, during the year ending June 30, 1958. Responses were received from all the companies addressed, and only one company, Sun Oil Company, stated that it could not participate in the program; however, its reply indicated that it would reduce its imports to the figure recommended by the Committee for that company by April 1, 1958. Other replies varied from statements of unreserved cooperation with the Government in the program to noncommittal statements regarding adherence but requesting a hearing on the quantities recommended.

3. On August 16, 1957, the administrative procedures for the conduct of hearings to correct inequities or to act on applications for the commencement of operations by new importers, were announced. On August 19, 1957, all those companies who had indicated in their responses to my telegram of August 2, 1957, that they desired a hearing or wanted to discuss a revision in the figures set by the Committee were invited to name two alternative dates for a

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[2] Attached Tables I, II, and III are not printed.

hearing of their petitions. Until now, of the 10 who had previously indicated that a hearing was desired, only 6 companies have asked for definite hearing dates. These have been fixed as follows:[3]

September 10 9:30 AM Room 6618	Standard Oil Company (Indiana) Chicago, Illinois
September 11 9:30 AM Room 5160	Tidewater Oil Company San Francisco, California
September 11 2:30 PM Room 5160	Standard Oil Company (Ohio) Cleveland, Ohio
September 16 2:00 PM Room 5160	Northwestern Refining Company St. Paul Park, Minnesota
September 17 9:30 AM Room 5160	Eastern States Petroleum Company, Inc. Houston, Texas
September 18 2:00 PM Room 5160	International Refineries, Inc. Minneapolis, Minnesota

The lack of requests for hearing dates for other companies who had previously stated they desired hearings cannot be explained with certainty.

4. It was to be expected that imports of crude oil into Districts I through IV during the last half of 1957 would exceed the quantities recommended by the Committee. The Committee's recommendations were, of course, directed to a daily average during the year ending June 30, 1958. Several factors are responsible for an overage during the last half of 1957. First of all, the Committee's recommendations were not made public until July 29, 1957, and were, therefore, retroactive in application to July 1. Adjustment in tanker schedules could not be made overnight, and the relatively heavy imports during the month of August can in large measure be attributed to tankers loading for or already enroute to the United States when the

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[3] A footnote in the source text states that the following hearings would be held in the Department of the Interior Building.

program was announced. Furthermore, some time must elapse to adjust commitments for the purchase of crude oil overseas.

5. Despite these factors, crude oil imports into Districts I through IV have shown a decline since the inception of the program from a high of 1,045,700 barrels a day for the week ending August 9, 1957, to a low of 880,000 barrels daily for the week ending August 30, 1957. West Coast imports have averaged 289,900 barrels daily for the six-week period. Table I shows crude oil imports into the U.S. for that period.

6. Tables II and III summarize the data supplied by the named importing companies relating to their actual imports during July 1957 and projected imports, by months, for the remaining five months of 1957. Again, it is interesting to note that the daily average for the last half of 1957 is 839,800 barrels. This figure compared with the Committee's recommendations for the year ending June 30, 1958, of a daily average of 755,700 barrels imports into Districts I through IV shows an excess of 84,100 barrels daily. As stated before, an overage is to be expected during the last half of 1957, but the greater part of the expected overrun, even for this period, can be attributed to two companies, named in the Committee report—Tidewater Oil Company and Standard Oil Company (Indiana), and to several importers such as Bay Refining Company whose past and programmed imports were not included in the Report.

7. At this time, it is too early to predict with accuracy the success of the Voluntary Program. Both Standard of Indiana and Tidewater, whose petitions are being heard during the week of September 9, 1957, could have a most serious adverse effect on the program in the event they failed to keep their imports closely in line with the decision of the Administrator after their cases have been heard. Such an event could not but result in other importers taking the position that the program has failed and that they, in turn, are justified in increasing their imports to maintain a relative competitive position.

8. Another potential source of danger to the program is the coming of new importers into the field who neither desire to submit their case for a hearing, or having so submitted, refuse to abide by the decision of the Administrator as to approved import allowables. At least three companies—Superior Oil, Ashland Oil and Refining Company and Crown Central Petroleum Company—have indicated that they each intend to begin crude oil imports of up to 20,000 to 25,000 barrels daily. This quantity would certainly have an unfortunate effect on other present importers who are now adhering to the plan. It is quite possible, of course, that there will be others who want to enter the import field in addition to those mentioned.

9. While the Committee recognized that new importers should have the opportunity to begin importing crude oil, it appears that with a normal annual increase in domestic demand of 3.4% to 3.8%, imports could increase in a year 30,000 to 35,000 barrels daily and still maintain a ratio of about 12% of imports to domestic production. However, it is not clear at this time whether the increase in allowable imports should all go to new importers (those not now importing) or should be prorated between them and those who are now importers. In any event, it appears most unlikely that an increase in domestic demand will provide room for additional imports in the quantities foreseen. The alternative, named by the Committee, for the older importers to make room for the new importers (by further curtailment of programmed imports) appears to have negligible chances of success. It might also present a serious question of possible antitrust violations as the older importers could, in effect, determine what a newcomer would be allowed.

10. Succeeding reports of the status of the program will be submitted regularly at intervals of about sixty days or oftener if directed by the Chairman of the Committee.

M.V. Carson, Jr. [4]

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[4] Printed from a copy that bears this typed signature.

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277. Editorial Note

On September 19, the President's Advisory Committee on Energy Supplies and Resources Policy met to review the residual fuel oil imports situation. It concluded that imports were substantially in line with what was needed to satisfy demand not met by domestic supplies, but that importers should be continually asked whether they planned any precipitous increase in shipments. (Memorandum of conversation by Carl E. Bartch, Office of South American Affairs, September 20; Department of State, Central Files, 411.006/9–2057)

278. Memorandum of a Conversation, Department of State, Washington, November 22, 1957 [1]

SUBJECT

Oil Cartel Anti-Trust Case

PARTICIPANTS

Mr. Victor R. Hansen, Assistant Attorney General
Mr. Robert A. Bicks, First Assistant, Anti-Trust Division, Department of Justice
The Under Secretary
Mr. Krebs

Mr. Hansen called to discuss the anti-trust case the Department of Justice has pending against five major oil producing companies: Standard Oil of New Jersey (SONJ), Socony-Vacuum, Standard Oil of California, Gulf and Caltex. He referred briefly to the previous history of the matter. He said State became interested when the question of new Middle East pipelines came up, and had urged Justice to investigate the possibility of a consent decree in view of the national security aspects of this case.

Since April 1957 Justice has been negotiating with SONJ which they considered the toughest nut to crack. Eventually agreement was reached with SONJ on a basis that was acceptable to the Attorney General and the President, although it is still anticipated that it may cause trouble with the Congress. With respect to the other companies there remains one unresolved issue, i.e., the requirement by Justice that SONJ and Socony divide up their joint interest in the overseas distribution facilities of Standard-Vacuum. This requires a separate agreement between SONJ and Socony. Last week Socony notified SONJ of its refusal to accept the latter's proposal for the split, in a letter which, according to Hansen, "slammed the door". Mr. Bicks commented that Socony's grounds for refusal were wholly commercial. He agreed with Mr. Herter's suggestion that this may be an attempt to drive a hard business bargain.

The court has set a limit of December 17th for acceptance of the consent decree by the parties. However, Justice must know by November 26th whether to go ahead with the decree procedures, or to initiate the complex preparations for a full trial. On November 21st SONJ approached Hansen informally seeking a delay of 3 days to permit them to intercede with Socony in a final effort to reach agreement. Mr. Hansen added he was convinced the other three companies would go along if SONJ and Socony made a settlement and accepted the decree.

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[1] Source: Department of State, Central Files, 811.2553/11–2257. Limited Official Use. Drafted by Krebs. A copy is also in the Herter Papers at the Eisenhower Library.

Mr. Hansen said Justice does not want to bring pressure on State, nor to suggest any specific action. He felt, however, that he should report this critical situation because State was responsible for initiating the consent decree action. The Under Secretary explained that, because of a possible conflict of interest, he had previously abstained from taking part in policy decisions involving petroleum matters. However, he felt that in this instance he need not hesitate because both State and Justice had already agreed on the need to avoid a court fight, particularly in the light of the current situation in the Middle East.

Mr. Hansen concluded by saying he felt they were very close to a satisfactory settlement and that he hoped the State Department might find some way to call the attention of Socony officials to the importance we attach, from the standpoint of national interest, to a settlement by consent decree. Mr. Herter agreed the Department would immediately explore what might be done in this connection.

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279. Memorandum From the Deputy Director of the Office of Near Eastern Affairs (Rockwell) to the Assistant Secretary of State for Near Eastern, South Asian, and African Affairs (Rountree)[1]

Washington, December 9, 1957.

SUBJECT

Possible Limitation of Oil Imports into the US West Coast

Problem:

The Office of International Resources (OR) has indicated that early this month the Cabinet Committee of Crude Oil Imports may receive a proposal for limiting crude oil imports into the West Coast. Persian Gulf crude represents almost one-third of the 350,000 barrels a day of imports scheduled for the first half of 1958.

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[1] Source: Department of State, Central Files, 411.006/12–957. Confidential. Drafted by George Bennsky of the Office of Near Eastern Affairs.

Discussion:

The Cabinet Committee on Crude Oil Imports in its report[2] of last July established a voluntary system of quotas for the purpose of limiting oil imports into Districts I through IV (the Atlantic and Gulf Coasts and the Canadian border east of the Rockies). It concluded that since no restrictions on domestic production were in effect in California, and since the West Coast was a deficit area in oil, no restrictions on imports into the West Coast were necessary. It did, however, provide for periodic review of this matter.

Captain Carson, the Administrator of the voluntary quota system, has been taking evidence at hearings regarding the situation with respect to oil imports into the West Coast. The evidence presented to him by the petroleum companies marketing in the area shows a program of oil imports scheduled at about 350,000 barrels a day (almost one-third of which represents Persian Gulf crude) for the first half of 1958. Imports into the area during 1957 were about 270,000 barrels a day. Production of oil in the area is forecast at 925,000 barrels a day as against a figure of 930,000 barrels a day for 1957. (An oil company source has indicated that Persian Gulf crude has been able to compete price-wise in this market due to its low cost of production and the depressed tanker rate situation.) Although West Coast producers have expressed apprehension over the rate of imports, no producer has indicated that he has any shut-in oil or that he is now having any difficulty marketing domestically produced petroleum.

However, it should be noted that, with the leveling off and decline of US industrial activity this year, domestic West Coast producers may have some grounds for concern over their ability to sell their oil in the short-run future. For example, West Coast consumption has not increased as was contemplated; the level for 1956 and 1957 being roughly the same. Moreover, the Department of Interior's consumption projections apparently show that the West Coast would need only about 200,000 barrels per day during 1958 to supplement domestic production.

Under these circumstances OR thinks it would not be illogical to expect presentation to the Cabinet Committee of a proposal for limiting imports to about 200,000 barrels a day as against the projected 350,000 barrels. Mr. Hoover has come to town from Los Angeles, and will be here until December 12, to advise Captain Carson on the matter before the Captain's discussion with the Cabinet Committee. The countries which would be adversely affected by a restriction on imports of oil to the West Coast include those in the Persian Gulf and Indonesia, Venezuela and Canada. All of these countries have had reason to believe that we would not limit imports into the West Coast.

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[2] Attachment to Document 270.

OR has pointed out that, although the proposal to limit oil imports into the West Coast is fundamentally unsound, it would no doubt be expressed with considerable vigor in the name of national security.

In conclusion, however, it should be noted that shipments to the West Coast represent only about four percent of total daily oil exports from the Middle East. It is not expected, therefore, that limitation of oil imports into the West Coast will result in significant economic consequences on the Persian Gulf states. Moreover, it will be recalled that the reaction of these states to the July limitation on oil imports into the Atlantic and Gulf Coasts was almost nil.

Recommendation:

That you consider bringing to the Secretary's attention the following aspects of the extension to the West Coast of the voluntary system of quotas for the purpose of limiting oil imports:

(1) Approximately one-third of the scheduled 350,000 barrels a day of oil imports into the West Coast originate in the Persian Gulf; this represents about four percent of total daily oil exports from the Middle East.

(2) The economic consequences on the Persian Gulf states of a decision to limit oil imports into the West Coast is not likely to be significant.

(3) However, with world oil production currently tending to rise at a faster rate than consumption, it is possible new U.S. restrictions on oil imports into the West Coast might be exploited [illegible] Middle Eastern elements unfriendly to the United States far out of proportion to its economic consequences to the Persian Gulf states.[3]

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[3] On an undated chit attached to the source text, addressed to Rountree and Rockwell, John F. Shaw noted that this problem had been "overtaken" and that a decision had been reached by the Cabinet Committee on Crude Oil Imports to limit imports into District V to 233,000 b/d. The President announced this decision on December 23; see Document 281.

280. Memorandum for the Files, by the Officer in Charge of Economic Organization Affairs, Office of European Regional Affairs (Moline)[1]

Washington, December 9, 1957.

SUBJECT

District V Oil Imports and Possible Effect on Canada

Last Thursday night as I was leaving the building I met Mr. Hoover who is in Washington in connection with the study being given to the District V oil import situation.[2] I told him that I had been reading about the developing problems on the West Coast arising from increased imports and understood that consideration was being given to finding some way to deal with the situation, perhaps under a voluntary agreement similar to the one in effect for Districts I–IV. I told him that I would like to speak to him about the problem because I feared repercussions in the field of U.S.-Canadian relations.

Last Friday Mr. Hoover called me to his office to discuss the District V situation. He had some statistics which showed a decline in U.S. imports of oil from Canada and an increase in imports from other sources into District V. He explained that the imports from Canada went entirely to two refineries in the State of Washington which were, however, operating at only 68% of rated capacity. By way of comparison, he pointed to figures showing the level of activity in four refineries in British Columbia which were operating at some 50% of rated capacity. (Today he said that he had learned that one reason for the very low refinery activity in British Columbia was that one refinery had been on strike.)

Mr. Hoover said that the principal reason why Canada was falling behind in supplying oil to District V generally was the fact that the law in Alberta operated to penalize the major companies which might otherwise have been interested in exporting the oil. Not only was Alberta oil relatively high priced, its price being set in relation to U.S. prices, but it was required that exports from Alberta be on a pro rata basis. Thus if a major company wished to export a barrel of its own oil it might have to purchase several additional barrels of some other company's oil, which thereupon became very expensive especially in relation to oil produced in Sumatra or the

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[1] Source: Department of State, Central Files, 411.006/12–957. Official Use Only.

[2] Hoover, who left the Department of State on February 5, was serving as consultant to the Department of State on the Turkish pipeline.

Middle East from which major companies could import their own supplies.

As for the problem generally California required approximately 200,000 barrels a day of imports to supplement its domestic production plus oil expected from the Four Corners area. Imports, however, were running over 300,000 barrels a day and promised to increase still further rather than to decline. Stocks were being increased at the rate of 100,000 barrels per day and there was every prospect for a disruptive price reduction if this situation continued.

Mr. Hoover said that he doubted any plan which might be worked out would penalize the Canadians. The companies which imported from Canada had good historical positions in the import picture and, moreover, had some public relations incentives for trying to bring their oil from Alberta to Washington. I called his attention to the assurances given by the Secretary to Prime Minister Diefenbaker at the time of their first meeting in July when the Secretary noted the care we were taking not to harm Canadian oil interest. Mr. Hoover replied that the conversation referred to the plans then being considered for Districts I–IV and observed that imports from Canada into this area had indeed been very fairly treated. He also noted that the Secretary had said that other measures would be required if the voluntary agreement did not prove successful. The voluntary agreement, according to Mr. Hoover, has been eminently successful east of the Rockies and most of the heat has gone out of the criticism previously engendered by the import situation. He stated that it was essential, in his judgment, to find a similar solution to the District V problem before the Congress reconvened in order to avoid restrictive action by that body. He noted that serious controversy regarding oil imports could be a substantial hazard to the renewal of the trade agreements program.

He said that he had given some consideration to the possibility of arrangements favoring Canada but had concluded that any of the possible preferences would be too patently discriminatory to make them practical.

Mr. Hoover said that he was willing to talk to Canadian Embassy people about the West Coast problem and, accordingly, arrangements have been made for Messrs. Ritchie and Chappell to meet with him tomorrow.[3]

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[3] A.E. Ritchie was Minister and Norman R. Chappell was Defense Production Attaché of the Canadian Embassy in Washington.

281. Telegram From the Department of State to the Embassy in Canada[1]

Washington, December 23, 1957—6:31 p.m.

351. Deptel 347.[2] US Government has carefully considered Canadian proposals re exemption from voluntary import restrictions on crude oil for District V and has decided anticipated repercussions from third countries render inadvisable discrimination in favor Canada alone.

Embassy may inform Canadian officials confidentially Shell and Socony Vacuum have promised continue taking Canadian crude at current rate.

Recommendations special committee to be given press this afternoon under midnight embargo.

Following is text of backgrounder for oral use by Department's news division in answering press queries tomorrow:

"The President announced on December 23, 1957, that he had approved the recommendations of the Special Committee to investigate crude oil imports as set forth in their Second Report and had requested the Secretary and the Director of the Office of Defense Mobilization to put such recommendations into effect as soon as possible.

"The recommendations of the Special Committee call for the extension into District V, the West Coast Area, of a voluntary program of restrictions on crude oil imports similar to that which has been applied to other parts of the United States since June 26, 1957. In recommending this measure, the Special Committee recognized that there are important foreign policy aspects to the problem of limiting petroleum imports, and that the oil reserves and production capacities of other free nations, as well as our own, are important to our national security. A number of countries inevitably depend in varying degree upon access to the American domestic market for their petroleum exports and it is in the interest of the national security of the United States that its allies and friends have healthy and expanding economies. They considered, however, that taking all factors into consideration, the national security required the maintenance of some reasonable balance between imports and domestic production in the District V Area at this time. Consequently, the recommendations were framed with the objective of limiting imports in order to maintain such a balance and yet to allow other nations to participate in the growth of American domestic demand to a degree consistent with United States national security."

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[1] Source: Department of State, Central Files, 411.006/12–2357. Official Use Only, Niact. Drafted by Nugent and approved by Elbrick.

[2] In telegram 347 to Ottawa, December 20, Herter stated that the U.S. Government could not delay announcing the voluntary oil agreement's applicability to the West Coast without difficulties and urged the Embassy to expedite the Canadian reply to the Department. (*Ibid.*, 411.006/12–2057)

Dulles

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282. Editorial Note

The Venezuelan Government exercised restraint in its initial comments about proposed restrictions on crude oil imports in July and early August 1957, but reacted strongly when President Eisenhower announced on December 23 that these restrictions would be extended to District V on the West Coast. In explaining on July 26 the forthcoming recommendations of the President's Special Committee to Ambassador González of Venezuela, Maurice Bernbaum, Director of the Office of Middle American Affairs, said he personally felt that the new formula was the best the Committee could work out at the present time. The Ambassador agreed with Bernbaum's assertion that Venezuela would receive special treatment since no restrictions were being imposed on residual fuel oils which constituted a substantial part of Venezuela's production. (Memorandum of conversation, July 26; Department of State, Central Files, 411.006/7–2657) In a conversation with Minister-Counselor Burrows in Caracas on August 7, Foreign Minister José Loreto Arismendi described the limitation as "imposed voluntary action" and reflected concern that it violated the spirit of the reciprocal trade agreement. (Telegram 101 from Caracas, August 7; *ibid.*, 411.006/8–757)

In October, Venezuelan officials expressed their irritation at the favored position given Canada in District V (telegram 303 from Caracas, October 23; *ibid.*, 411.006/10–2357) and asked why the restrictions were applied only to the Eastern States which imported Venezuelan petroleum. (Telegram 311 from Caracas, October 29; *ibid.*, 411.006/10–2957)

On December 28, Arismendi told Burrows in Caracas that the District V restrictions injured Venezuela and were protectionist measures favoring one certain sector of North American industry. He said, "We consider them harmful to good commercial relations between two countries and, should they become established policy, we would be obliged, logically, to revise our foreign economic policy." (Telegram 417 from Caracas, December 28; *ibid.*, 411.006/12–2857) For documentation on this subject, see volume VII, pages 1119 ff. See also Department of State, Central File 411.316; *ibid.*, ARA Files: Lot 59 D 12, Economic—Oil 1957; and *ibid.*, Lot 59 D 376, Venezuela—1957.

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